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**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION**

MICHAEL RILEY, Derivatively on
Behalf of OSI SYSTEMS, INC.,

Case No.: 2-18-cv-03371-MWF-GJS

Plaintiff.

Hon. Virginia A. Phillips

V.

**VERIFIED AMENDED
STOCKHOLDER DERIVATIVE
COMPLAINT**

DEEPAK CHOPRA, ALAN EDRICK,
AJAY MEHRA, JONATHAN FLEMING,
CHRISTOPHER COOK, STEVEN C.
GOOD, MEYER LUSKIN, WILLIAM F.
BALLHAUS, JR., JAMES B. HAWKINS,
GERALD CHIZEVER, and DAVID T.
FEINBERG, M.D..

DEMAND FOR JURY TRIAL

Defendants.

Judge: Hon. Virginia A. Phillips

and

**OSI SYSTEMS, INC., a Delaware
Corporation,**

Nominal Defendant.

1 Plaintiff Michael Riley (“Plaintiff”), by and through his counsel, derivatively
2 on behalf of Nominal Defendant OSI Systems, Inc. (“OSI” or the “Company”),
3 submits this Verified Amended Stockholder Derivative Complaint against the
4 Individual Defendants (defined herein) and alleges the following upon information
5 and belief, except as to those allegations concerning Plaintiff, which are alleged upon
6 personal knowledge. Plaintiff’s information and belief is based upon, among other
7 things, his counsel’s investigation, which included, *inter alia*, review and analysis
8 of: (i) regulatory filings made by OSI with the U.S. Securities and Exchange
9 Commission (“SEC”); (ii) press releases issued and disseminated by OSI; (iii) a
10 consolidated class action lawsuit (the “Securities Class Action”) filed in the United
11 States District Court for the Central District of California against OSI and defendants
12 Deepak Chopra (“Chopra”), Alan Edrick (“Edrick”), and Ajay Mehra (“Mehra”)
13 alleging violations of the anti-fraud provisions of the federal securities laws based
14 on the alleged issuance of false and misleading statements of material fact, and the
15 alleged omission to state material facts necessary to make other statements made not
16 misleading, between August 21, 2013 and February 1, 2018 (the “Relevant Period”)
17 with respect to, *inter alia*, OSI’s acquisition of an Albanian contract through bribery
18 or other illicit means; and (iv) other publicly-available information, including media
19 and analyst reports, concerning OSI.

20

1 **NATURE OF THE ACTION**

2 1. This is a stockholder derivative action asserting claims for breaches of
3 fiduciary duty, violations of Section 14(a) of the Securities Exchange Act of 1934
4 (the “Exchange Act”), unjust enrichment, and waste of corporate assets brought on
5 behalf of nominal defendant OSI against certain current and former officers and
6 members of the Company’s Board of Directors (the “Board”).

7 2. OSI was founded in 1987 and designs and manufactures security and
8 inspection systems including metal detectors and medical monitoring devices. The
9 Company sells its products and provides related services internationally in
10 diversified markets, including homeland security, healthcare, defense, and
11 aerospace.

12 3. During the Relevant Period, OSI generated more than half its revenue
13 from its core security division, which was primarily operated through its Rapiscan
14 Systems, Inc. subsidiary (“Rapiscan”). Rapiscan sells and provides services for X-
15 ray security and inspection systems to detect explosives, drugs, and other illegal
16 goods. Historically, the U.S. government was Rapiscan’s largest and most important
17 customer. Rapiscan had significant contracts with the Department of Homeland
18 Security (“DHS”) and Transportation Security Administration (“TSA”). DHS and
19 TSA purchased OSI security and inspection systems for use at airports, border
20 crossings, shipping ports, and military installations.

1 4. As a precursor to the wrongdoing that is the basis for this Complaint,
2 between 2011 and 2013, OSI had serious issues with its U.S. government contracts.
3 In November 2012, a U.S. Congressman Mike Rogers (then Chairman of the
4 Homeland Security Subcommittee on Transportation Security) sent a letter to TSA
5 stating that Rapiscan “may have attempted to defraud the Government” by
6 “knowingly manipulating” body scanner tests and concealing information relating
7 to its contracts with TSA. These allegations led to the U.S. government’s issuance
8 of a “show cause” letter and a “Notice of Proposed Debarment” of Rapiscan from
9 future DHS contracts.

10 5. Next, OSI was accused of misleading the U.S. government from 2010
11 through 2013 regarding its checkpoint baggage and parcel scanners, including
12 concealing the use of unapproved Chinese components to repair and manufacture
13 scanners in violation of its contract with TSA. OSI’s actions resulted in the
14 termination of U.S. government contracts worth almost \$500 million and an
15 “Administrative Agreement” with DHS concluding that, *inter alia*, Rapiscan had
16 “provided false or misleading information to the Government.” This conduct led to
17 a federal civil securities fraud lawsuit that ultimately settled for \$15 million in 2015.
18 It also resulted in the effective ouster of defendant Mehra – who is defendant
19 Chopra’s first cousin – from his role as President of Rapiscan. Mehra had led
20 Rapiscan during the issues regarding U.S. government contracts. Following his

1 dismissal from Rapiscan, Mehra was transferred to another division of OSI where
2 he was allowed to carry out further financial schemes.

3 6. After having its U.S. government contracts severely curtailed, the
4 Individual Defendants needed to turn OSI around. They sought to change the
5 Company's fortune by focusing on long-term service contracts with foreign
6 governments. This new business model was called "turnkey security screening
7 solutions," and the Individual Defendants told the investing public that it would
8 "transform the Company" by providing future growth and more consistent streams
9 of revenue.

10 7. This new "turnkey" model was sold through OSI's "S2 Global"
11 subsidiary, where defendant Mehra has been president since 2014. The Individual
12 Defendants stated that the S2 Global turnkey model provided full turnkey services
13 to support foreign governments and customs officials with the installation,
14 maintenance, and operation of the Company's security inspection products – as well
15 as the construction, staffing, and long-term operation of security screening
16 checkpoints. The turnkey model differed from OSI's traditional equipment sales
17 business in that the customer did not own the equipment but instead paid a
18 subscription or per-scan fee.

19 8. Throughout the Relevant Period, the Individual Defendants repeatedly
20 caused OSI to make statements that its turnkey model was its most promising new

1 business segment and would provide higher profit margins, greater revenue visibility
2 and consistency, and substantial growth opportunities in international markets.

3 9. In order to create some “facts” to back their intended narrative, the
4 Individual Defendants needed to show that foreign governments were willing to pay
5 exorbitant fees for long-term services contracts, as opposed to simply buying the
6 equipment and running it themselves (which was far cheaper). This could only be
7 possible with foreign governments that were extremely corrupt, dictatorial, and/or
8 lacked oversight, like Albania. Prior to the deal made with Albania, which is the
9 primary subject of this Complaint, OSI had only booked two turnkey contracts, in
10 Mexico and Puerto Rico, and had not had a new major turnkey deal since 2012. This
11 gave the Individual Defendants motive to sign a new turnkey contract by any means
12 necessary to back up their repeated statements of optimism.

13 10. On August 21, 2013, OSI’s luck appeared to change. The Individual
14 Defendants caused the Company to announce a new long-term turnkey contract with
15 the Albanian government (the “Albanian Contract”), then controlled by Prime
16 Minister Sali Berisha (“Berisha”) and his Democratic Party. The Company claimed
17 that the Albanian Contract was for a 15-year term and would provide \$150 to \$250
18 million in revenues. The press release announcing the deal quoted defendant Mehra
19 saying, “our selection [for the Albanian Contract] reinforces the attractiveness and
20 compelling value of our turnkey service model.”

1 11. Throughout the Relevant Period, the Individual Defendants caused OSI
2 to continue to tout the turnkey business model and the Albanian Contract as evidence
3 of its success and future viability. One example was on January 28, 2014, when
4 defendant Chopra stated, “[a]fter winning the new turnkey services contract earlier
5 this year in Albania, we have clearly established our leadership in growing this
6 particular service segment and expect to continue to leverage our position for further
7 growth.” Similar sentiment was put forth by the Company’s Chief Financial Officer
8 (“CFO”), defendant Edrick, when he stated on March 4, 2014, that the turnkey model
9 provided the Company with a “first-mover advantage” over its competitors, as
10 follows:

11 [W]hat’s been driving the growth over the past year has been largely
12 dominated by our turnkey security solutions. We pioneered this
13 area. . . . There’s only been three contracts of this type awarded to the
14 world. And to date, well, we’ve won all three. So today, we have 100%
15 market share in that area.

16 12. The Individual Defendants continued to represent that the turnkey
17 model “has been extraordinarily successful for us” and “in just a few short years,
18 this has gone from 0% of our Security business to about 30% today. So it’s been
19 very, very exciting. It’s a nice revenue, higher margin business for us of a recurring
20 nature.” The Individual Defendants also caused the Company to file a series of
public filings with the SEC that falsely assured the Company’s stockholders and the
investing public that, *inter alia*: (i) the Company’s financial disclosures were

1 accurate; (ii) the Company’s SEC filings did not contain misstatements and “fairly
2 present[ed]” the Company’s business condition “in all material respects;” and
3 (iii) OSI’s internal compliance controls were adequate to prevent misstatements,
4 corruption, and impropriety, including under the U.S. Foreign Corrupt Practices Act
5 (“FCPA”) and the federal securities laws.

6 13. Unbeknownst to the Company’s stockholders and the investing public,
7 these representations were materially false and misleading. The Individual
8 Defendants withheld key facts about how the Albanian Contract came to be. Instead
9 of being the product of an open bidding process, defendant Mehra – with the
10 acquiescence of the other Individual Defendants – entered into a secret and corrupt
11 arrangement to secure the contract.

12 14. In order to secure the Albanian Contract, OSI set up an Albanian
13 business subsidiary, S2 Albania SHPK (“S2 Albania”), to service and own OSI’s
14 rights and obligations under the \$150-250 million Albanian Contract. OSI then
15 transferred 49% of S2 Albania to an Albanian holding company, called Inspection
16 Control & Measuring Systems SHPK (“ICMS”), for a price of only 490 Albanian
17 Lekë – approximately \$4.50. ICMS was a shell entity owned by an Albanian dentist,
18 Olti Peçini (“Peçini”), with ties to Albania’s corrupt outgoing Berisha-controlled
19 government, which had awarded OSI the large turnkey contract. Defendant Mehra
20 personally executed this arrangement, as well as an undisclosed “profit shar[ing]”

1 agreement with ICMS relating to the Albanian Contract. The 49% transfer to ICMS
2 was approved by the Albanian Minister of Finance just days before his party left
3 office.

4 15. The entire process by which OSI secured the Albanian Contract
5 violated the FCPA, yet no part of the scheme was disclosed to the Company's
6 stockholders or the investing public. Throughout the Relevant Period, the Individual
7 Defendants concealed the corrupt details behind the Albanian Contract and
8 repeatedly touted its significance as an example of widespread acceptance of the
9 "transformative" new turnkey business model. For instance, in bond offering
10 documents issued in February 2017, the Individual Defendants falsely represented
11 that OSI owned "all of the issued and outstanding capital stock" of its subsidiaries,
12 including S2 Albania, even though it had transferred 49% of S2 Albania and
13 lucrative profit-sharing rights to ICMS years earlier for the equivalent of only \$4.50.

14 16. At the same time the Individual Defendants were concealing their
15 illegal acts regarding the Albanian Contract and pumping up OSI's stock price, they
16 were also selling off hundreds of thousands of shares of the Company's stock at
17 artificially-inflated prices for collective proceeds of over \$52.6 million. The sales
18 were coincidentally timed to maximize the value of their insider information. For
19 instance, just two weeks after the Company disclosed that the new Albanian regime
20 had "halted further progress" on the Albanian Contract, the Company disclosed that,

1 on September 11, 2014, defendant Chopra had entered into a Rule 10b5-1 plan to
 2 immediately sell 48,000 shares for millions of dollars in inflated proceeds knowing
 3 that the full extent of the wrongdoing had not been disclosed. These trades were so
 4 suspicious that they are now being investigated by the Department of Justice
 5 (“DOJ”) and the SEC.

6 17. On December 6, 2017, Muddy Waters Research (“Muddy Waters”)
 7 published a damning report on OSI entitled “OSIS:¹ Rotten to the Core” (the
 8 “Muddy Waters Report”). Muddy Waters alleged that the Albanian Contract was
 9 the result of a process replete with corruption and a lack of transparency. Muddy
 10 Waters claimed that while the Albanian Contract “has an estimated top line lifetime
 11 value of \$150 million to \$250 million,” the Company “likely bribed somebody by
 12 giving half of it away for \$4.50” since “[t]here was an unannounced transfer of 49%
 13 of OSIS’s project company, S2 Albania SHPK, to a holding company owned by an
 14 Albanian doctor, for consideration of less than \$5.00.” The Muddy Waters Report
 15 concluded that OSI was “rotten to the core” and had “obtained a major turnkey
 16 contract in Albania through corruption.” It also included translations of Albanian
 17 reports calling the deal the “theft of the century” and a “Mafia of scanning
 18 concession.” One Albanian report asked “how did the doctor Olti Peçini [buy] 49%
 19

20 ¹ OSI’s common stock trades on the NASDAQ Stock Market (“NASDAQ”) under
 the symbol “OSIS.”

1 of the shares of a concession worth 316 million USD for 490 lekë. Who is hiding
2 behind the ICMS. . . ? !”

3 18. Muddy Waters also revealed that “investigators’ interviews with former
4 employees yielded numerous anecdotes indicating OSIS is rotten to the core,”
5 including “knowledge of improper sales, cash payments to government officials,
6 fraud in a significant contract, and that OSIS had narrowly avoided being debarred
7 from doing business with the U.S. government.”

8 19. Within hours of the Muddy Waters Report, the Individual Defendants
9 caused OSI to respond in a December 6, 2017 press release, admitting many of the
10 core facts alleged by Muddy Waters, while stating that the “turnkey security
11 inspection programs in Mexico and Albania were the result of public tenders” and
12 that OSI’s partner in Albania “made significant capital investments toward the
13 implementation of the program in a value well beyond the par value of shares.”
14 Despite these statements of comfort, OSI’s stock price dropped by more than 29%,
15 representing a loss of over \$443 million in market capitalization.

16 20. On January 31, 2018, Muddy Waters replied to OSI’s response by
17 emphasizing that it stood by its “opinion that OSIS is rotten to the core.” Muddy
18 Waters rejected OSI’s assertions that its Albanian partnership was legitimate or the
19 result of an equitable, noncorrupt agreement. Muddy Waters cited financial
20 statements of OSI and its Albanian partner to support its assertions.

1 21. The next day, on February 1, 2018, OSI disclosed that the SEC and DOJ
2 had launched investigations into the Company's compliance with the FCPA. The
3 same disclosure revealed that the SEC and DOJ are also investigating trading in
4 OSI's securities and have subpoenaed the Company's executives, directors, and
5 employees. These disclosures caused the Company's stock price to drop another
6 18%, representing a decline of over \$216 million in market capitalization.

7 22. In total, the Company's market capitalization has declined significantly
8 following the publication of the Muddy Waters Report. In November 2017, OSI had
9 a market capitalization of \$1.687 billion and it has since decreased to \$986.7 million
10 as of February 2, 2018.

11 23. Throughout the Relevant Period, the Individual Defendants made
12 materially false and/or misleading statements, as well as failed to disclose material
13 adverse facts about the Company's business, operations, and prospects. Specifically,
14 the Individual Defendants failed to disclose that: (1) OSI illegally acquired the
15 Albanian Contract through bribery or other illicit means; (2) OSI transferred 49% of
16 its project company associated with the Albanian Contract, S2 Albania, an entity
17 purportedly worth millions, for consideration worth \$4.50; (3) OSI engaged in other
18 illegal acts, including improper sales and cash payments to government officials;
19 (4) these practices caused the Company to be vulnerable to potential civil and
20 criminal liability and adverse regulatory action; and (5) as a result of the foregoing,

1 the Individual Defendants' statements about OSI's business, operations, and
2 prospects were materially false and/or misleading and/or lacked a reasonable basis.

3 24. The Individual Defendants breached their fiduciary duties of loyalty,
4 good faith, due care, oversight, and candor by willfully engaging in the deceptions
5 alleged herein. In addition, defendants Chopra, Edrick, Mehra, Steven C. Good
6 (“Good”), and William F. Ballhaus, Jr. (“Ballhaus”) breached their fiduciary duties
7 of loyalty and good faith by selling shares of Company common stock while in
8 possession and control of material, adverse non-public information that was a
9 proprietary asset of the Company.

10 25. In addition, the Individual Defendants violated Section 14(a) of the
11 Exchange Act and SEC Rule 14a-9 by soliciting stockholder votes for director re-
12 election and approval of performance-based compensation, while simultaneously
13 misrepresenting and failing to disclose the Company's illegal activities described
14 herein.

15 26. As a direct and proximate result of the Individual Defendants' breaches
16 of their fiduciary duties, OSI has sustained damages as described below.

JURISDICTION AND VENUE

18 27. The Court has jurisdiction pursuant to 28 U.S.C. § 1331 because the
19 Complaint alleges a claim for violations of Section 14(a) of the Exchange Act and
20 SEC Rule 14a-9 promulgated thereunder. The Court has supplemental jurisdiction

1 over the pendent state law claims pursuant to 28 U.S.C. § 1367(a) because the state
2 law claims form part of the same case or controversy. This Court also has diversity
3 jurisdiction as conferred by 28 U.S.C. § 1332. Plaintiff and the Individual
4 Defendants are citizens of different states and the amount in controversy exceeds the
5 sum or value of \$75,000, exclusive of interest and costs. This action is not a
6 collusive action designed to confer jurisdiction on a court of the United States that
7 it would not otherwise have.

8 28. This Court has personal jurisdiction over each of the Defendants
9 because each defendant is either a corporation conducting business and maintaining
10 operations in this District, is an individual who is either present in this District for
11 jurisdictional purposes, or has sufficient minimum contacts with this District so as
12 to render the exercise of jurisdiction by this Court permissible under traditional
13 notions of fair play and substantial justice.

14 29. Venue is proper in this District pursuant to 28 U.S.C. § 1391 because
15 (i) one or more of the Defendants either resides or maintains executives offices in
16 this District; (ii) a substantial portion of the transactions and wrongs complained of
17 herein occurred in this District; and (iii) Defendants have received substantial
18 compensation and other transfers of money in this District by doing business and
19 engaging in activities having an effect in this District.

PARTIES

30. Plaintiff was a stockholder of OSI at the time of the wrongdoing alleged herein, and has been a stockholder of OSI continuously since that time. Plaintiff is a citizen of North Carolina.

31. Defendant OSI is incorporated in Delaware and its principal executive offices are located at 12525 Chadron Avenue, Hawthorne, California 90250.

7 32. Defendant Chopra is OSI's founder and has been its President, Chief
8 Executive Officer ("CEO"), and Chairman since 1987. Between September 25,
9 2014 and December 7, 2016, defendant Chopra sold 309,944 shares for a total value
10 of \$23,525,798, with knowledge of material non-public information regarding OSI's
11 lack of internal controls and illegal activities, all of which resulted in OSI stock
12 trading at artificially-inflated prices at the time of his stock sales. Defendant Chopra
13 is first cousins with defendant Mehra. Defendant Chopra received \$8,228,761,
14 \$8,477,921, \$6,888,699, \$7,078,479, and \$7,310,240 in total compensation in 2014,
15 2015, 2016, 2017, and 2018, respectively. He is also slated to receive an outlandish
16 severance package should he ever be terminated. Defendant Chopra is slated to
17 receive a \$13.5 million stay bonus, within 45 days of January 1, 2024 and will
18 receive three times the average of his highest two years of compensation of the
19 previous five years if he is fired without cause before then. That would total
20 approximately \$25 million based on the compensation figures above. Defendant

1 Chopra is also named as a defendant in the Securities Class Action. He is a citizen
2 of California.

3 33. Defendant Edrick has been the CFO and Executive Vice President of
4 OSI since September 2006. Between December 11, 2014 and March 14, 2017,
5 defendant Edrick sold 103,594 shares for total proceeds of \$8,185,397.13 with
6 knowledge of material non-public information regarding OSI's lack of internal
7 controls and illegal activities, all of which resulted in OSI stock trading at
8 artificially-inflated prices at the time of his stock sales. He received \$3,160,140,
9 \$3,047,455, \$2,508,632, \$2,832,915, and \$3,167,305 in total compensation in 2014,
10 2015, 2016, 2017, and 2018, respectively. Defendant Edrick is also named as a
11 defendant in the Securities Class Action. He is a citizen of California.

12 34. Defendant Mehra has been a member of the Company's Board since
13 March 1996. He is also Executive Vice President of the Company, President of OSI
14 Solutions Business, and President of S2 Global. Defendant Mehra joined the
15 Company as Controller in 1989 and was Vice President and CFO from November
16 1992 until November 2002, when he was named Executive Vice President. He was
17 also the President of OSI's Rapiscan subsidiary from September 2007 until his
18 removal in August 2014 for illegal schemes involving contracts with the U.S.
19 government. He also directly effectuated the transfer of 49% plus a profit-sharing
20 arrangement in the Albanian Contract to Peçini for consideration worth \$4.50.

1 Defendant Mehra is first cousins with defendant Chopra. Between October 29, 2014
2 and December 13, 2016, defendant Mehra sold 186,811 shares for total proceeds of
3 \$14,789,690.63 with knowledge of material non-public information regarding OSI's
4 lack of internal controls and illegal activities, all of which resulted in OSI stock
5 trading at artificially-inflated prices at the time of his stock sales. He received
6 \$3,281,717, \$2,756,527, \$1,164,806, \$2,858,718, and \$3,127,138 in total
7 compensation in 2014, 2015, 2016, 2017, and 2018, respectively. He is also named
8 as a defendant in the Securities Class Action. Defendant Mehra is a citizen of
9 California.

10 35. Defendant Jonathan Fleming ("Fleming") founded S2 Global in 2009
11 and helped lead its merger with OSI in 2010. He was the President of S2 Global
12 until 2014, when Mehra was named President. He is currently the Executive Vice
13 President of OSI's S2 Global subsidiary under defendant Mehra. Since March 19,
14 2013, defendant Fleming has been the administrator of Rapiscan's Albanian
15 subsidiary, S2 Albania. He is a citizen of Florida.

16 36. Defendant Christopher Cook ("Cook") has been OSI's Vice President
17 of Corporate Compliance since October 2013. Prior to that he was the Company's
18 first Director of Corporate Compliance. The Company was forced to create a
19 Director of Corporate Compliance as part of an administrative agreement with DHS
20 in June 2013 (the "Administrative Agreement"). Defendant Cook had no corporate

1 compliance experience prior to his appointment as Director of Corporate
2 Compliance in May 2013. He is a citizen of California.

3 37. Defendant Good has been a member of OSI's Board since September
4 1987. Good was a member of the Board's Audit, Compensation & Benefits, and
5 Risk Management Committees during the Relevant Period. Between September 9,
6 2014 and December 7, 2016, Good sold 19,650 shares for total proceeds of
7 \$1,391,150 with knowledge of material non-public information regarding OSI's lack
8 of internal controls and illegal activities, all of which resulted in OSI stock trading
9 at artificially-inflated prices at the time of his stock sales. Defendant Good is a
10 citizen of California.

11 38. Defendant Meyer Luskin ("Luskin") has been a member of OSI's
12 Board since February 1990. Luskin was a member of the Board's Audit,
13 Compensation & Benefits, and Risk Management Committees during the Relevant
14 Period. Defendant Luskin is a citizen of California.

15 39. Defendant Ballhaus has been a member of OSI's Board since May
16 2010. He was a member of the Board's Audit, Compensation & Benefits, and Risk
17 Management Committees during the Relevant Period. On September 10, 2014 and
18 December 15, 2016, Ballhaus sold a combined 1,750 shares for total proceeds of
19 \$124,950 with knowledge of material non-public information regarding OSI's lack
20 of internal controls and illegal activities, all of which resulted in OSI stock trading

1 at artificially-inflated prices at the time of his stock sales. Defendant Ballhaus is a
2 citizen of California.

3 40. Defendant James B. Hawkins (“Hawkins”) has been a member of OSI’s
4 Board since December 2015. He has been a member of the Board’s Audit
5 Committee since August 2016. Defendant Hawkins is a citizen of California.

6 41. Defendant Gerald Chizever (“Chizever”) has been a member of OSI’s
7 Board since October 2016. He has been a member of the Board’s Risk Management
8 Committee since its inception in August 2017. Defendant Chizever is a citizen of
9 California.

10 42. David T. Feinberg, M.D. (“Feinberg”) was a member of OSI’s Board
11 from 2010 until December 8, 2015. Defendant Feinberg is a citizen of California.

12 43. Defendants Chopra, Edrick, Mehra, Fleming, Cook, Good, Luskin,
13 Ballhaus, Hawkins, Chizever, and Feinberg are referred to herein as the “Individual
14 Defendants.”

15 44. Defendants Chopra, Mehra, Good, Luskin, Ballhaus, Hawkins, and
16 Chivezer are referred to herein as the “Director Defendants.”

17 45. Defendants Chopra, Edrick, Mehra, Good, and Ballhaus are referred to
18 herein as the “Insider Selling Defendants.”

19
20

1 **DUTIES OF THE INDIVIDUAL DEFENDANTS**

2 46. By reason of their positions as officers and/or directors of the Company
3 and because of their ability to control the business and corporate affairs of the
4 Company, the Individual Defendants owed the Company and its stockholders the
5 fiduciary obligations of good faith, loyalty, and candor, and were and are required
6 to use their utmost ability to control and manage the Company in a fair, just, honest,
7 and equitable manner. The Individual Defendants were and are required to act in
8 furtherance of the best interests of the Company and its stockholders to benefit all
9 stockholders equally and not in furtherance of their personal interest or benefit. Each
10 officer and director of the Company owes the Company and its stockholders the
11 fiduciary duty to exercise good faith and diligence in the administration of the affairs
12 of the Company and in the use and preservation of its property and assets, and the
13 highest obligations of fair dealing.

14 47. The Individual Defendants, because of their positions of control and
15 authority as officers and/or directors of the Company, were able to and did, directly
16 and/or indirectly, exercise control over the wrongful acts complained of herein.

17 48. To discharge their duties, the officers and directors of the Company
18 were required to exercise reasonable and prudent supervision over the management,
19 policies, practices and controls of the Company. By virtue of such duties, the
20 officers and directors of OSI were required to, among other things:

1 a. ensure that the Company complied with its legal obligations and
2 requirements, including acting only within the scope of its legal authority and
3 disseminating truthful and accurate statements to the SEC and the investing public;

4 b. conduct the affairs of the Company in a lawful, efficient,
5 business-like manner to provide the highest quality performance of its business, to
6 avoid wasting the Company's assets, and to maximize the value of the Company's
7 stock;

8 c. properly and accurately guide investors and analysts as to the true
9 financial condition of the Company at any given time, including making accurate
10 statements about the Company's financial results and prospects, and ensuring that
11 the Company maintained an adequate system of financial controls such that the
12 Company's financial reporting would be true and accurate at all times;

13 d. remain informed as to how the Company conducted its
14 operations, and, upon receipt of notice or information of imprudent or unsound
15 conditions or practices, make reasonable inquiry in connection therewith, and take
16 steps to correct such conditions or practices and make such disclosures as necessary
17 to comply with federal and state securities laws; and

18 e. ensure that the Company was operated in a diligent, honest, and
19 prudent manner in compliance with all applicable federal, state, and local laws, rules,
20 and regulations.

1 49. Each of the Individual Defendants, as an officer and/or director of OSI,
2 owed to the Company and its stockholders the fiduciary duties of loyalty, good faith,
3 and candor in the management and administration of the affairs of the Company, as
4 well as in the use and preservation of its property and assets. The conduct of the
5 Individual Defendants involves a knowing and culpable violation of their obligations
6 as officers and directors of the Company, the absence of good faith on their part, and
7 a reckless disregard of their duties to the Company and its stockholders that
8 Individual Defendants were aware or should have been aware posed a risk of serious
9 injury to the Company.

10 50. In addition, the Company has also adopted a Code of Ethics & Conduct
11 (the “Code”). The Code states in its Overview:

This Code of Ethics and Conduct (“Code”) contains our company’s general guidelines and requirements for conducting business according to the highest ethical standards and best practices.

14 This Code applies to employees, officers, and directors of OSI Systems, Inc. (“OSI”) and our subsidiaries worldwide.

* * *

16 Obeying the law is part of the foundation on which our ethical standards
17 are built. You have an obligation to comply with every applicable local,
18 regional, or national law or regulation in those jurisdictions in which
we have a presence and operate our business. Violations of these laws
can be extremely costly to us and can subject us (or you) to civil and
criminal penalties.

51. The Code goes on to state:

1 As a publicly traded company, we are obligated to comply with
2 applicable securities laws, regulations, and reporting requirements.
3 Our corporate policy and these rules and regulations mandate that we
4 report financial transactions accurately, completely, fairly, and in a
5 timely and understandable manner.

6 We will not tolerate inaccurate, incomplete, delayed, or falsified
7 reporting. Employees who are involved with financial reporting are
8 required to understand and comply with applicable accounting
9 standards and laws.

10 * * *

11 OSI is committed to compliance with U.S. and international
12 government contracting.

13 * * *

14 U.S. and international government employees are required to abide by
15 strict ethical guidelines that restrict their ability to receive gifts, meals,
16 and entertainment. OSI's policy requires that you avoid providing gifts,
17 hospitality, or entertainment to government officials in order to avoid
18 the appearance of improper influence.

19 * * *

20 We are firmly committed to complying with international anti-
21 corruption and anti-bribery laws including the U.S. Foreign Corrupt
22 Practices Act (FCPA) and the U.K. Bribery Act. OSI's Anti-
23 Corruption Compliance (ACC) Policy strictly prohibits making,
24 offering, promising, or authorizing a corrupt payment of money, or
25 anything of value, to a government official or any other person in order
26 to obtain or retain business, or to direct business, or to achieve any
27 business-related objective.

28 52. As noted in the Company's October 23, 2017 Proxy Statement filed
29 with the SEC on Form 14A (the "2017 Proxy"):

30 Our Board is responsible for our risk oversight. Risks we face include
31 competitive, economic, operational, financial, accounting, liquidity,
32 tax, regulatory, foreign country, safety, employment, political, and

1 other risks. Risks are reported to our Board through our executive
 2 officers, who are responsible for the identification, assessment, and
 3 management of our risks. Our Board regularly discusses the risks
 4 reported by our executive officers and reviews with management
 5 strategies and actions to mitigate the risks and the status and
 6 effectiveness of such strategies and actions.

7 To optimize its risk oversight capabilities and efficiently oversee our
 8 risks, the Board delegates to its committees oversight responsibility for
 9 particular areas of risk. For example, the Audit Committee oversees
 10 management of major financial risks, including risks related to
 11 accounting, auditing, financial reporting, and maintaining effective
 12 internal control over financial reporting. The Risk Management
 13 Committee oversees management of key enterprise risks, including
 14 strategic, operational, legal, regulatory, and compliance. The
 15 Nominating and Governance Committee oversees risks related to the
 16 effectiveness of the Board. The Compensation Committee oversees
 17 risks related to our executive compensation policies and practices. The
 18 Technology Committee oversees risks related to technology matters.
 19 During fiscal 2017, the Board also had an Executive Committee that
 20 oversaw risks related to strategic transactions.

21 53. Furthermore, the Company's Audit Committee – defendants Good,
 22 Luskin, Ballhaus, and Hawkins – is specifically tasked with the Board's oversight
 23 responsibilities. The conduct of the Audit Committee is governed by the Audit
 24 Committee Charter. Pursuant to the Audit Committee Charter:

25 **Responsibilities**

26 The Committee will assist the Board in fulfilling its oversight
 27 responsibilities with respect to (i) the annual and quarterly financial
 28 information to be provided to stockholders and the SEC; (ii) the system
 29 of internal controls that management has established; and (iii) the
 30 internal and external audit process. In addition, the Committee
 31 provides an avenue for communication between internal auditor, the
 32 independent auditor, financial management and the Board.

20 * * *

1 **Specific Duties**

2 In carrying out its oversight responsibilities, the Committee will:

3 1. Review and reassess the adequacy of this
4 Charter annually and recommend any proposed changes to
5 the Board for approval. This should be done in
6 compliance with applicable Nasdaq and SEC
7 requirements.

8 2. Review with the Company's management,
9 internal auditor and independent auditor the Company's
10 accounting and financial reporting controls. Obtain
11 annually in writing from the independent auditor its letter
12 as to the effectiveness of such controls.

13 54. In addition, the Board has a Risk Management Committee – defendants

14 Good, Luskin, Ballhaus, and Chizever.² The Risk Management Committee Charter
15 states in pertinent part:

16 **Purpose**

17 The purpose of the Risk Management Committee (the "Committee") of
18 the Board of Directors (the "Board") of OSI Systems, Inc. (the
19 "Company") will be to assist the Board in its oversight of the
20 Company's management of key risks, including strategic, operational,

15 ² The Risk Management Committee was formed in August 2017. It appears that
16 prior to the formation of the Risk Management Committee, its responsibilities fell
17 to the Audit Committee. As noted in the Company's 2016 Proxy Statement filed
18 with the SEC on October 21, 2016:

19 To optimize its risk oversight capabilities and efficiently oversee the
20 Company's risks, the committees of the Board of Directors are
21 delegated oversight responsibility for particular areas of risk. For
22 example, the Audit Committee oversees management of major
23 financial and enterprise risks, including risks related to accounting,
24 auditing, financial reporting, maintaining effective internal control over
25 financial reporting, legal and compliance.

1 legal, regulatory, compliance, security, reputational and other risks, as
2 well as the guidelines, policies and processes for monitoring and
mitigating such risks.

3 * * *

4 **Responsibilities**

5 Outlined below are certain continuing responsibilities that the
Committee is expected to fulfill in effecting its purpose as stated in this
6 Charter. This list of responsibilities is presented for illustrative
purposes and is not intended to be exhaustive. The Committee may
7 conduct additional activities as appropriate in light of changing
business, legislative, regulatory, legal or other conditions. The
Committee shall also fulfill other responsibilities delegated to it from
8 time to time by the Board.

9 1. Monitor all enterprise risks, with the
understanding that certain specific responsibilities for risk
10 oversight have been delegated to other Board committees.

11 2. Coordinate with the other standing
committees of the Board to assist such committees in their
12 review of the Company's risks, the oversight of which has
been delegated to them.

13 3. Review with management, at least quarterly,
14 (i) the Company's program for promoting and monitoring
compliance with applicable legal and regulatory
15 requirements, and (ii) the Company's major legal
compliance risk exposures and the steps management has
16 taken to monitor or mitigate such exposures, including the
Company's procedures and any related policies with
17 respect to risk assessment and risk management.

18 55. Additionally, the Board's Compensation & Benefits Committee
19 ("Compensation Committee") – defendants Good, Luskin, and Ballhaus – "has
20 overall responsibility for evaluating and approving the Company's compensation
and benefits plans, policies and programs." Pursuant to the Charter of the

1 Compensation & Benefits Committee, the Compensation Committee has the
2 following responsibilities, among other things:

- 3 1. Review and approve corporate goals and objectives relevant to
4 the Chief Executive Officer's and other executive officers'
5 compensation.
- 6 2. Evaluate the performance of the Chief Executive Officer and
7 other executive officers of the Company and, based on such
8 evaluation, review and approve the annual salary, bonus, stock
9 options and other benefits, direct and indirect, of the Chief
10 Executive Officer and other executive officers. The Chief
11 Executive Officer may not be present during voting or
12 deliberations on his compensation.
- 13 3. In determining incentive compensation for relevant senior
14 executives, the Committee will consider conduct in compliance
15 with or in violation of the Company's Code of Ethics and
16 Conduct. The Vice President of Compliance will report this
17 information to the Committee at least once per year.
- 18 4. Review and recommend to the full Board of Directors
19 compensation of directors, as well as director's and officer's
20 indemnification and insurance matters.
- 21 5. Review and make recommendations to the Board of Directors
22 with respect to the Company's incentive-compensation plans and
23 equity-based plans, and oversee the activities of the individuals
24 responsible for administering those plans.
- 25 6. Review and approve all equity compensation plans of the
26 Company that are not otherwise subject to the approval of the
27 Company's shareholders.
- 28 7. Review and make recommendations to the Board of Directors
29 with respect to the Company's benefit plans, and oversee the
30 activities of the individuals responsible for administering those
31 plans.

56. The Individual Defendants failed to maintain the standards laid out by both the law and the Company, resulting in the breaches of fiduciary duty described herein.

SUBSTANTIVE ALLEGATIONS

I. Company Background

57. OSI operates three primary divisions to design and manufacture specialized electronic systems and components. The Company sells products and provides related services in diversified markets, including homeland security, healthcare, defense, and aerospace. The Company's Security division is the largest and most important, representing approximately 50% of the Company's net revenues between 2013 and 2017. The Security division consists of two segments: (i) Rapiscan, which designs, manufactures, markets, and sells security inspection systems; and (ii) S2 Global, which provides what the Company calls "turnkey security screening solutions." The products and services are used for cargo and vehicle inspection at ports of entry, baggage and human screening at airports, and narcotics trace detection, among other uses. Historically, OSI focused on its Rapiscan equipment business. However, with the Company's traditional business model faltering due to prior misconduct surrounding its U.S. government contracts, in early 2013, the Individual Defendants shifted OSI's focus to the turnkey business as the driving force of the Company's future success.

1 **II. The Company's History of Issues with DHS and TSA Contracts in the**
2 **United States**

3 58. Traditionally, OSI's "base business model" was the manufacture and
4 sale of security equipment through Rapiscan. These products include systems for
5 baggage and parcel inspection, cargo and vehicle inspection, checked baggage
6 screening, people screening, and radiation detection. The products are used for
7 security purposes at locations such as airports, border crossings, shipping ports,
8 military and other government installations, and freight forwarding facilities. In
9 addition to equipment sales, Rapiscan also generated revenues by providing
10 "aftermarket support," including the sale of spare parts and maintenance services.
11 Rapiscan's main customers were domestic and foreign government agencies,
12 including TSA, DHS, U.S. Customs and Border Protection, Puerto Rico, Mexico,
13 and Albania.

14 59. Prior to the Relevant Period, Rapiscan's single largest customer was the
15 U.S. government, which provided a substantial portion of the Company's revenue.
16 As OSI disclosed in Forms 10-K dating back to 2009, "[t]he U.S. government
17 currently plays an important role in funding the development of certain of our
18 security and inspection systems and sponsoring their deployment at airports, ports,
19 military installations and border crossings." Moreover, according to a December 9,
20 2013 *Bloomberg* article, titled "OSI Tumbles on Possible Contract Ban for Chinese
Parts," between 2009 and December 2013, OSI received a total of \$463 million in

1 U.S. government contracts – nearly a third of the Security division’s total reported
2 net revenue for the same period.

3 60. Defendant Mehra had been Rapiscan’s President since at least 2005.
4 His leadership caused Rapiscan’s relationship with the U.S. government to
5 deteriorate between 2009 and 2013, as Rapiscan was accused of two separate
6 schemes to mislead the government. These scandals led to the cancellation of multi-
7 million-dollar contracts with the U.S. government, subjected the Company to
8 increased scrutiny, and caused Rapiscan to lose market share and revenue.

9 61. The U.S. government accused Rapiscan of fraud in connection with a
10 \$173 million contract awarded by TSA in 2009 for “whole-body imaging” scanners
11 to be used for security screening in U.S. airports (the “2009 Contract”). In
12 November 2012, TSA issued a show cause letter alleging that Rapiscan failed to
13 fully disclose issues it discovered during the development of body scanners under
14 the 2009 Contract. Shortly thereafter, Congressman Mike Rogers – who was
15 Chairman of the Homeland Security Subcommittee on Transportation Security –
16 asserted that OSI “may have attempted to defraud the Government by knowingly
17 manipulating an operational test of [the] . . . software in the field in order to have a
18 successful outcome.”

19 62. On January 17, 2013, OSI announced that TSA had cancelled the \$173
20 million 2009 Contract with Rapiscan. Four months later, OSI announced that DHS

1 had issued a “Notice of Proposed Debarment” in connection with TSA’s show cause
2 letter, which “allege[d] that Rapiscan failed to disclose a defect with the Products
3 and replaced hardware in the Products without being granted proper governmental
4 approval.” The Notice of Debarment proposed prohibiting Rapiscan from doing any
5 future business with the U.S. government.

6 63. The U.S. government next accused Rapiscan of fraud in connection
7 with a \$325 million contract awarded in 2010 (before the first scandal was exposed)
8 by TSA for checkpoint baggage and parcel scanners (the “2010 Contract”). On
9 November 20, 2013, TSA issued Rapiscan another show cause letter regarding
10 Rapiscan’s use of unapproved components for the scanners, concluding that
11 Rapiscan “provided false or misleading information to the Government,” which
12 “was a sufficient independent basis for TSA to terminate” the contract. As a result,
13 TSA cancelled an order for Advanced Technology X-Ray based systems valued at
14 approximately \$60 million, as announced by the Company on December 5, 2013.
15 Thereafter on December 9, 2013, OSI issued a press release admitting that the
16 component change “did not meet the contractual requirement of obtaining TSA’s
17 approval in advance.”

18 64. As part of the debarment proceedings, OSI entered into a detailed
19 Administrative Agreement which required the Company to design and implement
20 comprehensive policies, procedures and internal control systems, including for the

1 “monitoring and auditing of contracts” and “business ethics” to ensure that its
2 Security business “operates in compliance with all applicable laws [and]
3 regulations.” The Administrative Agreement, which was executed on June 21, 2013,
4 two months before the Relevant Period began, stated in relevant part:

5 Rapiscan agrees to maintain a self-governance program that includes
6 compliance programs for internal controls, designed for the effective
7 monitoring and auditing of contracts and grants, and a business ethics
8 program that covers all employees. The business ethics program shall
9 be maintained with the goal that Rapiscan and each of its employees
maintains the business honesty and integrity required of a government
contractor and that Rapiscan operates in compliance with all applicable
laws, regulations, and the terms of any contract. Rapiscan represents
that the business ethics program includes the following components;

10 A. Rapiscan employees are subject to a Code of Ethics and Conduct
11 (Code of Conduct). The Code of Conduct specifically addresses ethical
12 business practices; securities laws; antitrust and competition;
anticorruption; export control; political activities; conflict of interest;
13 gifts and gratuities; employment laws; financial reporting; health and
safety; and reporting suspected violations of law or the Code of
Conduct. This Code of Conduct includes a non-retaliation policy,
which prohibits retaliation against employees for reporting suspected
violations of the Code. Rapiscan will provide to the DHS SDO a copy
of the Code Ethics and Conduct within 30 days following the execution
15 of this agreement.

16 65. The Administrative Agreement also required the Individual Defendants
17 to appoint a Director Corporate Compliance – defendant Cook – and maintain
“robust” compliance, ethics, and monitoring programs that would be overseen by
18 the Company’s General Counsel under the direct supervision of defendant Chopra,
19

1 and would be in constant communication with the Board, specifically the Audit
2 Committee, as follows:

3 Rapiscan has implemented and agrees to maintain a robust and
4 functional program that includes business ethics, compliance programs,
5 and internal controls to ensure that Rapiscan effectively monitors,
6 audits, and communicates about its compliance and ethics obligations
7 and its commitment to the highest standards of integrity and
transparency.

8 Both prior to and in response to TSA's Show Cause Letter, Rapiscan
9 took and will maintain the following measures:

10 * * *

11 B. Development of an OSI Systems ("OSI") wide corporate
12 compliance program. Corporate Compliance directly reports to OSI's
13 General Counsel, who has and will continue to directly report to the
14 Chief Executive Officer of OSI. In accordance with the OSI Board
15 Audit Committee Charter, the Audit Committee comprising
16 independent directors are responsible for overseeing the OSI
17 compliance functions and promoting communication with the other
18 board members. OSI's Vice President, Internal Audit reports directly
19 to OSI's Board, and is responsible for assessing the sufficiency and
20 effectiveness of the company's compliance programs.

21 C. Created new position of Director, Corporate Compliance, with
22 direct access to OSI's Board of Directors on compliance issues and
23 related activities. Christopher Cook is Director of Corporate
24 Compliance for OSI. . . . As Director of Corporate Compliance, Mr.
25 Cook is responsible for, among other things;

- 26
- 27 1. Designing, implementing and monitoring the compliance
28 program;
 - 29 2. Reporting on a regular basis to the General Counsel;
 - 30 3. Revising the compliance program periodically, as
31 appropriate;

4. Developing, coordinating and participating in compliance training and education;
 5. Ensuring that contractors and agents are aware of Company compliance requirements; and
 6. Independently investigating and acting on compliance matters.

66. The Administrative Agreement also required the Individual Defendants to submit written reports to the federal government regarding the implementation of these changes, as follows:

Semi-annually, Rapiscan shall submit a written report to DHS describing the measures taken by Rapiscan during the semi-annual period to implement the business ethics program and to ensure compliance with this Agreement. The reports shall be submitted in time to be received by the DHS SDO within 20 days of the end of the semiannual period. The final report shall be presented to the DHS SDO no later than one month prior to the final day of this Agreement. The reports shall include the following:

- A. Any standards of conduct, ethics, or compliance training conducted, subject matter covered, and the number and types of people that attended;
 - B. Information notifications or initiatives related to the business ethics program;
 - C. Information required by the terms of this Agreement;
 - D. The initiation of and status of any ongoing investigation or legal proceedings involving Rapiscan related to the facts described herein;
 - E. A statement by the Rapiscan verifying that the Code of Business Ethics and Conduct is being maintained; and

1 F. A statement of any problems or weaknesses identified through
2 the Ethics and Business conduct process, corrective action proposed or
initiated, and the status of any corrected action.

3 67. As a result of the Administrative Agreement, the Individual Defendants
4 were required to monitor OSI's contracts – including its all-important Albanian
5 Contract – for any compliance, ethics, or legal issues.

6 **III. The Individual Defendants Move Defendant Mehra to S2 Global After
the U.S. Government Demands His Removal from Rapiscan**

7 68. The Individual Defendants' repeated scandals with the U.S.
8 government had serious implications for the Company. A debarment from DHS
9 would have prevented OSI from contracting with the U.S. government in the future,
10 jeopardizing hundreds of millions of dollars in key Company revenue. To avoid this
11 outcome, OSI made several concessions to the U.S. government, including the
12 removal of defendant Mehra as President of Rapiscan and the imposition of
13 extensive compliance provisions discussed above.

14 69. Rapiscan employees have reported that TSA saw defendant Mehra as
15 "slick," "not trustworthy," a "PNG" (*persona non grata*), and not willing to comply
16 with government rules and regulations. TSA also felt that defendant Mehra would
17 push non-compliance measures forward and did not want him involved in any TSA
18 contracts after the threat of debarment. TSA also pushed to have him terminated,
19 and the Company agreed to terminate Mehra, as President of Rapiscan as part of a
20 consent decree. Because Mehra was Chopra's cousin, however, instead of removing

1 him altogether, in 2014, OSI promoted Mehra to President of S2 Global. In his new
2 position, defendant Mehra would oversee OSI’s allegedly promising vision for the
3 future, its turnkey business – an area that defendant Edrick had described as “one of
4 the most exciting areas within our Security business[,]” an area that “really
5 significantly transformed our overall financial [situation],” the “number one”
6 “biggest growth opportunit[y] for us in Security[,]” and “a tremendous opportunity
7 for us.” Rather than holding Mehra accountable for spearheading multiple illegal
8 schemes that significantly harmed the Company’s business prospects, OSI put him
9 in charge of one of the most important areas of business in the Company – one which
10 the Individual Defendants told investors was going to fill the revenue hole and
11 credibility gap created by Mehra’s prior schemes.

12 70. In addition to being forced to “remove” Mehra from Rapiscan, OSI was
13 subjected to additional compliance requirements and personnel changes – including
14 the appointment of defendant Cook as Director (and later Vice President) of
15 Corporate Compliance.

16 **IV. Rapiscan’s Traditional Business Model Struggles After U.S.
Government Regulatory Issues**

17 71. Despite narrowly avoiding total debarment, defendant Mehra’s
18 misfeasance still took a serious toll on the Company’s core Security business. The
19 two suspended contracts cost the Company \$498 million. Moreover, as the
20 misconduct relating to the U.S. government was playing out, the Company’s body

1 scanners were losing competitive edge and market share and becoming backlogged.
2 As defendant Edrick summarized, “So if you go back for our last four, five
3 conference calls, we’ve been telling everybody about body scanners we haven’t sold
4 any units over the last two years. So the great growth that we had in Security in
5 2011 and 2012 lot of people thought it came from body scanners. It didn’t, we didn’t
6 sell any units in those periods. And we said further that we don’t expect to be selling
7 any body scanners to the TSA going forward.”

8 72. The problems with the U.S. government also threatened OSI’s
9 reputation, sales, and future U.S. government contracts. Further compounding the
10 fallout from the Company’s efforts to mislead the U.S. government, Rapiscan’s TSA
11 contracts had been procured under a temporary stimulus package set to expire.
12 Specifically, in the aftermath of the Great Recession in 2008-2009, Congress enacted
13 the American Recovery and Reinvestment Act of 2009 (“ARRA”) to provide
14 temporary stimulus funding for government agencies, including DHS, who
15 purchased security equipment from Rapiscan. Prior to the Company’s issues with
16 the U.S. government, Rapiscan had received a “bump” in its sales due to the ARRA,
17 its expiration coincided with the loss of government contracts due to misconduct.

18 **V. Trouble with Finding Turnkey Customers**

19 73. In early 2013, as OSI’s core Security business in the U.S. floundered,
20 the Individual Defendants shifted the Company’s focus to a new business model in

1 the Security division – turnkey solutions. Defendant Edrick described this shift at a
2 February 26, 2013 Morgan Stanley Technology, Media & Telecom Conference,
3 stating: “One of the areas that we’ve really been trying to grow is our turnkey
4 business.” Likewise, at the June 4, 2013 Stephens Spring Investment Conference
5 (the “June 4, 2013 Conference”), defendant Edrick bragged that the Company’s
6 Security business “has been growing significantly and we’ve been transforming our
7 business model . . . with some new turnkey services, which has led to some
8 significant operating margin expansion, not only within the Security division but all
9 of OSI.”

10 74. According to the Individual Defendants, the turnkey model differed
11 from OSI’s traditional equipment sales business. Under its turnkey model, OSI’s
12 customer did not buy or own the security equipment but instead paid a subscription
13 or pay-as-you-go plan such as a per-scan fee. By contrast, under OSI’s traditional
14 model, OSI simply sold security equipment to a customer, who then owned the
15 equipment. The turnkey model guaranteed continuing fees as opposed to the old
16 model of a one-time fee.

17 75. According to the Individual Defendants, a standard turnkey contract
18 works as follows: Rapiscan manufactures the requested product (*i.e.*, scanners,
19 equipment, installations) and sells it to S2 Global, which installs it at the customer’s
20 location. While OSI continues to own the equipment – *i.e.*, it still appears on OSI’s

1 balance sheet – the customer has the right to use it. OSI then presents the customer
2 with several add-on services, including design and construction of the security
3 checkpoint sites, installation of the equipment at the sites, selecting, training, and
4 managing the personnel operating the sites, operation of the equipment, and
5 maintenance and security of the sites.

6 76. The Individual Defendants commonly hailed the turnkey model as the
7 Company's most critical business opportunity. As defendant Edrick stated at the
8 March 11, 2014 ROTH Capital Partners Conference (the "March 11, 2014
9 Conference"), "Turnkey . . . we view it as perhaps our largest growth opportunity."
10 Likewise, at a May 14, 2014 Oppenheimer Industrials Conference, defendant Edrick
11 stated, "if you look at the Security business, I'd say the three biggest growth
12 opportunities for us in Security would be, number one would be Turnkey. That's a
13 tremendous opportunity for us."

14 77. The Individual Defendants repeatedly proclaimed that OSI was a
15 "pioneer" in the turnkey industry – being the first of its competitors to offer the
16 service and the only Company in the world to obtain three such contracts. Indeed,
17 throughout the Relevant Period, the Individual Defendants consistently boasted that
18 the Company had "100% market share" of the turnkey security business. As
19 defendant Edrick explained at a March 4, 2014 Morgan Stanley Technology, Media
20 and Telecom Conference:

1 really, what's been driving the growth over the past year has been
2 largely dominated by our turnkey security solutions. We pioneered this
3 area. . . . There's only been three contracts of this type awarded in the
4 world. And to date, well, we've won all three. So to date, we have a
5 100% market share in that area.

6 78. Similarly, at a Jefferies Global Industrials Conference on August 14,
7 2014, defendant Edrick stated: “[T]here have been three contracts awarded in the
8 world. So, right now, we're batting a thousand, and we think that first mover
9 advantage is going to lead to substantial capturing of future business going forward.”

10 79. In addition to assuring the market that the Company's turnkey business
11 would drive growth, the Individual Defendants also boasted that the turnkey model
12 had numerous purported advantages that would result in a strategic edge over OSI's
13 competitors. For example, the Individual Defendants repeatedly emphasized that
14 turnkey contracts generate higher profit margins than standard equipment contracts
15 for the Company and considered them “cash cows.” Although the Company
16 deliberately refused to disclose the exact margins it was seeing on these contracts
17 during the Relevant Period, the Individual Defendants repeatedly represented to
18 OSI's stockholders and the investing public that OSI's turnkey margins were far
19 superior to the Company's overall and Security division average.

20 80. Additionally, the Individual Defendants praised the turnkey contracts
as providing a consistent long-term and recurring revenue stream. As defendant
Edrick stated during a February 8, 2017 conference, the turnkey model “has been

1 extraordinarily successful for us. . . . It's a nice revenue, higher margin business for
2 us of a recurring nature." Similarly, at the March 11, 2014 Conference, defendant
3 Edrick stated that, "The new turnkey revenues is really an exciting business model
4 in order to have recurring revenues as substantially higher margins makes a big
5 impact for us and gives us a great deal of visibility as we look forward."

6 81. Before the Relevant Period, OSI had secured only two turnkey contracts
7 – one in Puerto Rico in 2010 and another in Mexico in 2012. Given the Individual
8 Defendants' repeated representations that turnkey would drive future growth,
9 analysts began pressing the Individual Defendants on new turnkey deals to
10 demonstrate that the new model was sustainable. The Individual Defendants insisted
11 that new turnkey opportunities were on the horizon.

12 82. For instance, a month after OSI lost a contract with TSA, at a February
13 26, 2013 conference, defendant Edrick stated:

14 there is a customer set out there that is very interested in the turnkey.
15 So we're pursuing additional turnkey opportunities. They are generally
16 longer sales cycles, but we're working through those, some of those
we've been working on for some time and I think we're going to see
some nice rewards and in the future.

17 **VI. Key Details about the Turnkey Business have Never been Fully
Disclosed**

18 83. As part of their scheme to mislead investors, the Individual Defendants
19 created a business model that allowed them to conceal crucial details of their turnkey
20 operations and their contracts in general. Indeed, the Company worked in foreign

1 jurisdictions that had little oversight but had notoriously high corruption and
2 purposefully refused to provide crucial details regarding the turnkey business and
3 contracts.

4 84. The turnkey business model existed exclusively in foreign jurisdictions
5 where oversight was minimal and corruption was rampant. The Individual
6 Defendants specifically sought out foreign jurisdictions for OSI's turnkey business
7 that did not have the stringent reporting and ethics standards required in the U.S.
8 They also sought to do business with countries where a "fear of corruption" of
9 security procedures existed and the nation's government might be looking to lend
10 credibility to its programs. Defendant Edrick explained the business model, at the
11 August 5, 2015 CFA Society of Minnesota's InvestMNT Conference, as follows:

12 So in dealing with governments and we're not generally dealing with
13 the western world, so most of the turnkeys we're looking at are not in
14 the US or Western Europe, they're in places that have other unique
15 challenges. . . . others might have other concerns in their particular
country, such as fear of corruption and things like that, and being able
to outsource it to another Company, could lend greater credibility to the
overall program.

16 85. Even before the Albanian Contract with OSI, Albania had a notably
17 terrible record on transparency and corruption. In 2013, when OSI secured its
18 Albanian Contract, "[c]orruption in all branches of government was pervasive," and
19 "officials frequently engaged in corrupt practices with impunity," according to the
20 U.S. State Department's Albania 2013 Human Rights Report. Indeed, in 2013,

1 Albania ranked 116th on Transparency International's Corruption Transparency
2 Index.

3 86. By any metric, the turnkey model was a terrible economic proposition
4 for the customer. By keeping the turnkey business in foreign jurisdictions where
5 corruption was pervasive and the government lacked transparency, the Individual
6 Defendants were able to conceal OSI's corrupt arrangements.

7 87. The Individual Defendants also worked to hide the financial details of
8 OSI's turnkey business. While commonly touting the importance of the Company's
9 turnkey contracts, the Individual Defendants stonewalled requests for turnkey
10 focused financial details. For example, they refused to disclose actual profit margins
11 from turnkey contracts or distinguish between non-turnkey and turnkey financial
12 results. At a May 14, 2014 Oppenheimer Industrials Conference, defendant Edrick
13 plainly stated, "we don't break out the margin specifically between Turnkey and
14 non-Turnkey." While in the next breath not hesitating to emphasize that "[t]he
15 overall margin improvement has been largely driven by the uptick in revenues
16 associated with the Turnkey business."

17 88. The Individual Defendants also failed to disclose information regarding
18 turnkey revenues. For example, on the Company's April 30, 2014 earnings
19 conference call, in response to questions from an analyst regarding "Security
20 bookings" and the "number for Security funded backlog," defendant Edrick

1 answered, “We don’t break down our revenues precisely between turnkey and non-
 2 turnkey, as a matter of course. . .” When pressed for more information regarding the
 3 turnkey business, defendant Edrick declined to provide any, stating: “We don’t
 4 break out our turnkey revenues. But I think you have a pretty good idea of the range
 5 of what our turnkey revenues are. But we don’t break that out separately.”

6 89. Because the Individual Defendants did not specifically disclose turnkey
 7 margins or revenues, they were able to conceal the financials associated with the
 8 Albanian Contract, including the profits that S2 Albania shared with ICMS.

9 **VII. The Albanian Turnkey Contract**

10 90. The Individual Defendants began pursuing the Albanian Contract in
 11 2011, when Albania was governed by the Democratic Party, led by then-Prime
 12 Minister Berisha – a cardiologist and professor in the Faculty of Medicine at the
 13 University of Tirana.³ Almost immediately, OSI received favorable treatment from
 14 Albania’s government. As first reported in the December 6, 2017 Muddy Waters
 15 Report exposing certain details surrounding the Albanian turnkey contract, on
 16 November 11, 2011, a decision of the Council of Ministers of the Government of
 17 Albania signed by Berisha awarded a “bonus of 8% [of the points] for the technical
 18 and financial result in the procedure selective bidding (unsolicited proposal)” to OSI

19
 20 ³ Peçini, the Albanian dentist who owns ICMS, the entity that received 49% of the
 Albanian Contract and a profit-sharing agreement in exchange for consideration
 worth \$4.50, founded a hospital in Tirana and Berisha spoke at its inauguration.

1 – thereby giving the Company a significant advantage against any potential
2 competitors.

3 91. In 2012, the Albanian government issued a request for proposal for the
4 Albanian Contract, according to the May 10, 2013 Albanian *Official Gazette* (“May
5 10, 2013 Official Gazette”). However, several previously untranslated Albanian
6 reports – which were only reported in Albania, in Albanian, and remained unknown
7 to market analysts and investors until the December 6, 2017 Muddy Waters Report
8 – evidence clear signs of collusion. For example, according to a September 19, 2014
9 *Monitor* (an Albanian language publication) article, titled “‘Rapiscan’ requires the
10 revocation of recommendations for scanning of containers, Competition revokes it,”
11 the Albanian Competition Authority concluded that the bid was not a public tender
12 where bidders were on the same footing. Additionally, in a November 26, 2014,
13 *Gazeta Telegraf* article, titled “Brace: Berisha laments, the energy price will not be
14 over 10 ALL,” Erion Brace - a member of the Socialist Party in the Albanian
15 Parliament – argued that the proceeds of the Albanian Contract went into the pockets
16 of Berisha and the ministers who signed the contract. Moreover, at a July 7, 2015
17 meeting of the Albanian Committee for Economy and Finances, Mr. Brace criticized
18 the contract because OSI’s bid was the only offer. As Muddy Waters later reported
19 on December 6, 2017, OSI originally proposed a \$32 scanning fee, yet the
20 Democratic government inexplicably awarded the Company a contract with a

1 approximately \$50 scanning fee and agreed to pay the scanning fee to OSI for all
2 customs declarations, even if OSI did not scan them.

3 92. In June 2013, Berisha's party lost power and began transitioning to a
4 new administration. On September 13, 2013, defendant Mehra approved the sale of
5 49% of S2 Albania to ICMS and the contract was signed on September 16, 2013 -
6 within days of the departure of the Berisha government.

7 93. On August 21, 2013, the Individual Defendants caused OSI to
8 announce its highly anticipated third turnkey contract in Albania. In an August 21,
9 2013 press release, titled "OSI Systems Receives Fifteen-Year Agreement to
10 Provide Turnkey Screening Services in Albania," the Individual Defendants caused
11 the Company to announce that "the Government of Albania has awarded its Security
12 division, Rapiscan Systems, a fifteen-year contract to provide turnkey cargo and
13 vehicle security screening services at various sites throughout the country." The
14 Individual Defendants touted that they expected total gross revenues from the
15 Albanian Contract to "range from \$150 million - \$250 million over the term of the
16 agreement."

17 94. Immediately upon announcing the Albanian Contract, the Individual
18 Defendants hailed the deal as proof that the Company's turnkey model was a
19 success. For instance, in the August 21, 2013 press release, defendant Chopra stated:

20 This significant award from Albania to provide turnkey screening
services builds upon similar long-term agreements awarded by the

1 Puerto Rico ports authority and Mexico's tax and customs authority.
2 Our strategy of expanding our security offerings beyond the
3 manufacture and sale of screening and detection equipment by
4 providing comprehensive turnkey screening services continues to be
5 well received in the marketplace.

6 95. In the same press release, defendant Mehra represented that “[t]he
7 Albanian government’s initiative to secure its ports and land crossings represents
8 another significant step in the security inspection arena. We are proud to have been
9 selected to execute this critical program. Our selection reinforces the attractiveness
10 and compelling value of our turnkey service model.”

11 96. In addition to how misleading the Individual Defendants statements
12 were about the attractiveness of the turnkey business, they also concealed, *inter alia*,
13 that: (i) the Albanian Contract was subject to a secret arrangement whereby OSI
14 sold 49% of its Albanian subsidiary that held the rights to the \$150 to \$250 million
15 Albanian Contract to a suspicious holding company owned by an Albanian dentist
16 for only \$4.50; (ii) OSI was not entitled to all of the contracts profits, as it had
17 entered into a secret “profit share” arrangement with the dentist’s company; and
18 (iii) the 49% transfer occurred under suspicious circumstances the same week that
19 the outgoing Albanian government (which had given OSI extremely favorable terms
20 on the contract) left office.

21 97. According to the Albanian Government’s May 10, 2013 Official
22 Gazette, on April 10, 2013, Rapiscan officially entered into a turnkey contract with

1 Albania's Ministry of Finance for the financing, establishment, and operation of
2 scanning services for containers and other vehicles. The contract was signed by
3 then-President of S2 Global, defendant Fleming, and then-Albanian Minister of
4 Finance, Ridvan Bode ("Minister Bode"), a member of the Albanian Democratic
5 Party. According to S2 Albania's Historical Register, on May 22, 2013, OSI,
6 through Rapiscan, registered an Albanian corporation, S2 Albania, to accept the
7 rights and obligations of the contract. According to S2 Albania's "Articles of
8 Association" signed by defendant Fleming and dated March 19, 2013, the entity was
9 formed for the "Implementation of the Concession Agreement as well as any other
10 activity related to the matter or required to enforce the agreement."

11 98. In secret, on August 30, 2013, Minister Bode approved a sale of 49%
12 of S2 Albania to an Albanian entity called ICMS. Under the Albanian Contract, OSI
13 was required to obtain government approval for the transfer of more than 25% of S2
14 Albania and Minister Bode covertly provided this approval. On September 6, 2013,
15 defendant Mehra – who also oversaw the earlier U.S. government contract-related
16 misconduct at Rapiscan – authorized the sale of 49% of S2 Albania to ICMS for only
17 \$4.50 in total consideration. More specifically, on September 6, 2013, defendant
18 Mehra signed a Power of Attorney in Los Angeles explicitly authorizing an Albanian
19 attorney named Endrit Shijaku ("Shijaku") to "carry out the [] sale" of S2 Albania
20 to ICMS "for 490 Albanian lekë" (the equivalent of \$4.50), sign the contract

1 transferring 49% of S2 Albania to ICMS, and execute any necessary steps to
 2 complete the sale. Below are the relevant portions of the Power of Attorney:

3 Mr. Endrit Shijaku, born on 6 June 1974
 4 resident in Tirana, holder of the Albanian ID
 5 No. 032276700, (the "Representative")
 6
 7 to represent the Company in relation to the
 8 sale to ICMS of 490 quotas (only) that the
 9 Company holds (amongst others) in S2
 10 Albania shpk a company established under
 11 the laws of the Republic of Albania
 12 registered with the commercial register held
 13 by the National Registration Centre under
 14 NIPT: L31722010Q (the "Sale").
 15
 16 The Representative has the power to carry
 17 out the above mentioned Sale of quotas for a
 18 purchase price that is equal to 490 Albanian
 19 leke.
 20
 21 The Representative shall have the power to
 22 conclude any contract and take and steps
 23 make any filings that may be required in
 24 order to complete the above described Sale
 25 and register it with the Albanian National
 26 Registration Centre.

Z. Endrit Shijaku, lindur me 6 Qershor 1974,
 ne Tirane banues ne Tirane mbajtes i
 Leternjofitimit ID me Nr. 032276700,
 "Perfaqsuesi"):

te perfaqsoje Shoqerine ne lidhje me shitjen
 tek ICMS te 490 kuotave qe Shoeria zoteron
 ne shoqerine S2 Albania nje shoqeri e
 themeluar sipas se drejtës se Republikës se
 Shqiperise e regjistruar ne regjistrin tregtar
 te mbajtur nga Qendra Kombtare e
 Regjistrimit me NIPT: L31722010Q (me
 poshte referuar si "Shitja")

Perfaqsesesi kate drejtë qe te beje shitjen e
 kuotave te mesiperme per nje cmim te
 barabarte me 490 leke shqiptare.

Perfaqsesesi ka te drejto te lidhe cdo
 kontrate dhe te ndermarrë cdo hap apo te
 beje edo kerekse qe mund te jetë e
 nevojshme per te perfunduar. Shitjen e
 pershkruar me larte dhe per ta regjistruar ate
 prane Qendres Kombtare te Regjistrimit ne
 Shqiperi.

1	The representative has also the right to:	Perfaqsuesi ka gjithashtu te drejte te:
2	effect all such action as they deem necessary or useful for the above as well as receive declarations and documents including forms; the Representative is authorized and shall have the right to effect all payments and fees for such registrations.	kryeje te gjitha veprimet e nevojshme apo te dobishme lidhur me sa me siper si dhe te marre ne dorezim deklarata dhe dokumenta duke perfshire dhe formulare; Perfaqsuesi eshte i autorizuar dhe ka te drejten te kryeje te gjitha pagesat e likuidoje te gjitha detyrimet e tarifat per keto regjistrime.
3	All acts performed by the Representative pursuant to this power of attorney shall be considered valid and regular as if conducted by the Company itself.	Te gjitha veprimet e kryera nga perfaqsuesi sipas kesaj prokure konsiderohen te vlefshme dhe te rregullta si te ishin kryer nga vete Shoqeria.
4	For the Company:	Per Shoqerine
5	Ajay Mehra, Director Rapiscan Systems, Inc.	Ajay Mehra, Director Rapiscan Systems, Inc.
6		
7		
8		
9		
10		

11 99. Pursuant to Defendant Mehra's instructions, on September 16, 2013,
 12 Shijaku secretly signed the formal contract for the sale of 49% of S2 Albania to
 13 ICMS for a value of approximately \$4.50. As the Individual Defendants later
 14 admitted following the Muddy Waters Report, S2 Albania also entered into an
 15 undisclosed "profit share" agreement with ICMS relating to the Albanian Contract.
 16 Below is a copy of the relevant portion of the sale contract reflecting the purchase
 17 price:
 18
 19
 20

1 QUOTA PURCHASE AND SALE CONTRACT

2
3 THIS CONTRACT (the "Contract") dated 16.09. 2013 is made among:
4 Rapiscan Systems Inc, with its registered seat at 2805 Columbia Street, Torrance,
5 California 90503 (the "Seller"), represented through Power of Attorney by Endrit
6 Shijaku; and

7 Inspection Control & Measuring Systems Sh.p.k., a company organized under the
8 laws of Albania with registration number K81902014E with offices located at R.
9 Kongresi Lushnjes, Tirane, Albania ("ICMS") represented by its administrator
10 Z. Orl. Icen. (the "Purchaser").
11 *Linder 19/08/1947 Tirane
mbajtja i letërsisë së përgjithshme
r. H708131770*

12 ARTICLE I - DEFINITIONS

13 Section 1.01. Definitions

14 Wherever used in this Contract, unless stated otherwise or the context otherwise
15 requires, the following terms shall have the following meanings:

- 16 "Quota" means each of the quotas of the Company with a nominal
17 value of ALL 1 each.
- 18 "Company" means S2 Albania shpk a company established under the laws
19 of the Republic of Albania registered with the commercial
20 register held by the National Registration Centre under NIPT:
L31722010Q.
- 21 "Leks" or "ALL" means the lawful currency of the Republic of Albania.
- 22 "Purchase Price" means ALL 490 (four hundred ninety leke).

23 ARTICLE II - PURCHASE AND SALE OF THE QUOTAS

24 Section 2.01. Purchase Price

25 The Seller hereby sells to the Purchaser and the Purchaser hereby purchases
26 from the Seller 490 Quota in the Company with a total nominal value of ALL 490
27 representing 49% of the entire registered capital of the Company in consideration for
28 the Purchase Price ("Target Quotas").

29 For the avoidance of doubt, the Seller shall – upon registration of the above sale –
30 continue to hold the 510 quotas in the Company with a nominal value of ALL 510
31 representing 51% of the Quotas of the Company.

32 100. According to S2 Albania's Historical Register, on September 19, 2013,

33 OSI completed the transfer of 49% ownership in S2 Albania. Below is the relevant
34 excerpt of S2 Albania's Historical Register, reflecting the 49% transfer:

HISTORIKU I REGJISTRIMIT

Data e regjistrimit	Ndryshimi i te dhenave te regjistruara
19/09/2013	<p>Numri i ceshtjes: CN-194966-09-13 Arsyet e hapjes se ceshtjes: Depozitimi i Kontrates se Shitjes se 49 % te kuotave nga shoqeria "Rapiscan Systems, Inc" ne favor te shoqerise "ICMS" sh.p.k , date 16.09.2013.</p> <p><u>Kane ndodhur ndryshimet e meposhtme tek ortaket juridik:</u> <u>eshte shtuar ortaku: ("ICMS") Numri i aksioneve "490,00</u> <u>Pergindja ne kapital "49,00 Kontributi ne para "490,00</u> <u>Kane ndryshuar te dhenat per ("Rapiscan Systems, Inc") , Vlera e</u> <u>Kontributit ishte ("1.000,00") u be ("510,00")</u> <u>Kane ndryshuar te dhenat per ("Rapiscan Systems, Inc") , Përgindja</u> <u>e Kapitalit ishte ("100,00") u be ("51,00")</u> <u>Kane ndryshuar te dhenat per ("Rapiscan Systems, Inc") , Numri i</u> <u>akcioneve ishte ("1.000,00") u be ("510,00")</u></p>

101. According to ICMS's Historical Register, at the time of the transfer,
 ICMS's sole shareholder was Peçini. Below is the relevant excerpt of ICMS's
 Historical Register:

AKTIVITETI		
10. Administratori/ët	Olti Peçini	
10.1 Afati i emërimit	Nga: 07/09/2010	Deri: 31/12/2020
11. Procedura e emërimit nëse ndryshon nga parashikimet ligjore		
11.1 Kufizimet e kompetencave (nëse ka)		
12. Ortakët	OltiPeçini	
12.1 Vlera e kapitalit	Para: 70.000.000,00	Natyre:
12.2 Numri i pjesëve	100,00	
12.3 Pjesëmarrja në përqindje (%)	100,00	
- Të përfaqësuarit, (Plotësohet vetëm nëse zotëron kuotën si përfaqësues)		

102. Peçini is an Albanian dentist, according to a list published by "Rreth Shendetit Publik" (an Albanian public health organization). He has owned several companies in Albania, including a cleaning service and an insurance brokerage, according to searches on Albania's National Business Center. He also founded the

1 Salus Hospital in Tirana, Albania, according to the Salus Hospital website. Peçini
2 had no reported experience in providing security services on par with the Albanian
3 Contract. Indeed, his only ostensible connection to the Albanian Contract was his
4 relationship with then-Prime Minister Berisha (a doctor himself), who – according
5 to a January 14, 2012 press release by the Albanian Council of Ministers titled “PM
6 Berisha attends inauguration of Italian-Albanian SALUS hospital” – attended and
7 spoke at the inauguration of the Salus Hospital founded by Peçini. At the time of
8 the 49% transfer, records show that ICMS appears to have lacked any material assets
9 aside from its ownership of S2 Albania. According to ICMS’s 2013 financial
10 statements, ICMS had liabilities that exceeded its less than one million dollars in
11 assets and was operating at a loss of over \$100,000.

12 103. Although Peçini only paid \$4.50 for a 49% stake in the lucrative
13 Albanian Contract, he used his stake in S2 Albania to immediately secure a €1.9
14 million loan. According to a Pledge Agreement dated December 7, 2013, Peçini
15 pledged 49% of ICMS’s shares for a €1.9 million loan from the National Bank of
16 Commerce sh.a. According to a Decision of the General Assembly of ICMS issued
17 on December 11, 2013, ICMS’s credit agreement with the National Bank of
18 Commerce sh.a. prohibited ICMS from selling its shares in S2 Albania without
19 approval from the National Bank of Commerce sh.a.

20

1 **VIII. Trouble with the Albanian Turnkey Contract**

2 104. Immediately after the regime changed in Albania and Berisha departed
3 his office, the newly-elected government denounced the Albanian Contract. By June
4 2014, the Albanian Competition Authority recommended the revision of the
5 contract. A July 13, 2015 *Monitor* article, titled “New ‘Tax’ on Customs,” reported
6 that business opposition by this time was also considerable due to the extremely high
7 service fee and, as a result of this opposition, the new government refused to
8 implement the Albanian Contract and attempted to terminate it unilaterally.
9 Meanwhile, the Individual Defendants continued falsely to tout the progress of the
10 Albanian Contract and kept any facts about it being in jeopardy concealed from
11 OSI’s stockholders and the investing public, commonly making statements that the
12 Albanian Contract was progressing as planned.

13 105. Eventually, the Individual Defendants allowed OSI to disclose that the
14 Albanian government was “halting further progress” on the turnkey contract in late-
15 August 2014, while continuing to conceal the true reasons why – *i.e.*, the corrupt
16 history of the deal’s signing and the 49% transfer and profit share arrangement with
17 ICMS. The Individual Defendants’ actions to procure the Albanian Contract were
18 clear violations of the FCPA, yet they failed to disclose these illegal acts for another
19 three years.

1 106. After being unable to get the Albanian Contract restarted by other
2 means, OSI brought an action against the government of Albania before the
3 International Court of Arbitration. The matter settled on April 28, 2015 for far less
4 favorable contract terms, to be effective October 31, 2015, according to Law No.
5 75/2015 of the Assembly of the Republic of Albania.

6 107. Under the renegotiated contract, OSI's payment terms were contingent
7 on the amount of each customs declaration. For example, for all customs
8 declarations over 1,000 euro, OSI would be paid a scanning fee of 22 euros – *i.e.*, 17
9 euro or approximately 44% less than the fee in the original contract. Moreover, for
10 customs declarations under 1,000 euro, Albania would charge a fee of 5 euro. On
11 June 5, 2015, the Council of Ministers of Albania submitted the renegotiated
12 concession to the Albanian Assembly and stated that the value of the contract had
13 been reduced from approximately 316 million euro to 210 million euro – a difference
14 of 106 million euro.

15 **IX. The Individual Defendants' Misconduct Subjected OSI to Prosecution
for FCPA Violations**

16 108. The Individual Defendants' misconduct in connection with the
17 Albanian Contract and their related misstatements and omissions created the
18 significant and foreseeable risk that OSI would be investigated for violations of and
19 found to have violated the FCPA.

1 109. The U.S. Congress enacted the FCPA in 1977 after revelations of
2 widespread global corruption, including the SEC’s discovery that more than 400
3 companies had paid hundreds of millions of dollars in bribes to foreign officials to
4 secure business overseas. The FCPA seeks to address the problem of international
5 corruption through anti-bribery and accounting provisions.

6 110. The FCPA’s anti-bribery provisions prohibit U.S. persons and
7 businesses from offering to pay, paying, promising to pay, or making or authorizing
8 a payment of money or anything else of value to a foreign official in order to
9 influence any act or decision in his or her official capacity or to secure any other
10 improper advantage for the purpose of obtaining or retaining business. Many FCPA
11 enforcement actions involve bribes to obtain or retain government contracts.

12 111. The FCPA’s accounting provisions require companies to: (i) make and
13 keep books, records, and accounts that, in reasonable detail, accurately and fairly
14 reflect an issuer’s transactions and dispositions of an issuer’s assets (“Books and
15 Records”); and (ii) devise and maintain a system of internal accounting controls
16 sufficient to assure management’s control, authority, and responsibility over the
17 firm’s assets. The FCPA’s internal control provisions address the fact that the
18 payment of bribes often occurs in companies that have weak internal control
19 environments. The FCPA’s Books and Records provisions address the concern that
20 bribes are often mischaracterized in companies’ Books and Records, with companies

1 utilizing things like commissions, consulting fees, sales and marketing fees, and
2 rebates or discounts to conceal corrupt payments. Additionally, given that bribes
3 may be paid in small amounts or installments over several years or across a number
4 of recipients, there are no materiality thresholds for enforcing the FCPA's
5 accounting provisions.

6 112. The DOJ and SEC both have authority to enforce compliance with the
7 FCPA. Failure to comply with any of the FCPA's provisions can result in civil or
8 criminal penalties, including substantial fines, prohibitions on operations in an
9 industry or country, or disbarment from doing business with the federal government.
10 These penalties also cause material damage to a company's brand, business, and
11 operating results, and often involve costly investigations and remediation efforts.

12 113. Throughout the Relevant Period, the Individual Defendants'
13 misconduct subjected OSI to an investigation and potential criminal and civil
14 penalties – which could prohibit the Company from doing business with the U.S.
15 and foreign governments – due to FCPA violations. The Individual Defendants also
16 knew that the risk of repercussions for FCPA violations was material and yet
17 continued to tout the Company's "international operations as providing an important
18 strategic advantage over competitors" and "significant growth opportunities," as
19 well as putting forth the turnkey business as the future, when it relied almost entirely
20 on violations of the FCPA to be successful.

1 114. Additionally, throughout the Relevant Period, the Individual
2 Defendants made and/or caused the Company to make statements regarding OSI's
3 specific policies and protocols aimed at complying with the FCPA. For example, in
4 the Company's Forms 10-K filed with the SEC on August 24, 2015, August 19,
5 2016, and September 7, 2017, the Individual Defendants caused the Company to
6 state:

7 We are required to comply with the U.S. Foreign Corrupt Practices Act,
8 which prohibits United States companies from engaging in bribery or
9 making other prohibited payments to foreign officials for the purpose
10 of obtaining or retaining business. It also requires us to maintain
11 specific record-keeping standards and adequate internal accounting
12 controls. In addition, we are subject to similar requirements in other
13 countries. Bribery, corruption, and trade laws and regulations, and the
14 enforcement thereof, are increasing in frequency, complexity and
15 severity on a global basis. Although we have internal policies and
procedures with the intention of assuring compliance with these laws
and regulations, our employees, distributors, resellers and contractors
involved in our international sales may take actions in violations of such
policies. If our internal controls and compliance program do not
adequately prevent or deter our employees, distributors, resellers,
contractors and/or other third parties with whom we do business from
violating anti-bribery, anti-corruption or similar laws and regulations,
we may incur severe fines, penalties and reputational damage.

16 115. As quoted above, the Company had similar statements and
17 requirements in its Code of Ethics.

18 116. The arrangement that OSI had with the Berisha regime in Albania very
19 likely included bribes that violated the FCPA. The most obvious results of which
20 were the 8% bump given to OSI in its bid for the contract, followed by the \$4.50

1 consideration paid by ICMS in exchange for 49% and a profit-sharing arrangement
2 of the Albanian Contract. This deal was made by OSI's S2 Global turnkey
3 subsidiary and its newly formed S2 Albania division. S2 Global is an extremely
4 secretive entity overseen by a small and close-knit group of only three OSI
5 executives, including defendants Mehra and Fleming. This group monitored and
6 oversaw the negotiations and execution the OSI's turnkey contracts, including the
7 Albanian Contract.

8 117. The Albanian Contract was a key contract for OSI and part of the core
9 operation of the Company during the Relevant Period – its turnkey business. The
10 Individual Defendants, as officers and directors, were knowledgeable about OSI's
11 core business operations – including its Security division and that division's highly-
12 touted turnkey business. The Security division was the core of OSI's business during
13 the Relevant Period and accounted for 49%, 50%, 50%, and 58% of OSI's total
14 revenues for fiscal years 2014, 2015, 2016, and 2017, respectively.

15 118. Throughout the Relevant Period, as set forth below, the Individual
16 Defendants repeatedly caused the Company to represent that the success of its key
17 Security division was being driven by its turnkey business. As a result, both the
18 Individual Defendants and the investing public were keenly focused on the
19 Company's turnkey business and its three long-term turnkey contracts, including the
20 Albanian Contract. Indeed, the Individual Defendants consistently reported that

1 turnkey service revenues were driving the Security division's growth and comprised
 2 a material portion of its backlog.

3 119. According to OSI's most recent Form 10-Q, filed with the SEC on
 4 January 28, 2019, the SEC and DOJ investigations of FCPA violations are ongoing.
 5 The SEC has subpoenaed documents from OSI, and OSI has provided those
 6 documents to both the SEC and DOJ.

7 **X. Materially False and Misleading Statements Issued During the Relevant
 Period**

8 120. On August 21, 2013, the Individual Defendants caused the Company to
 9 issue a press release, titled "OSIS Receives Fifteen-Year Agreement to Provide
 10 Turnkey Screening Services in Albania." Therein, the Company stated, in relevant
 11 part:

12 OSI Systems, Inc. (NASDAQ: OSIS), a vertically-integrated provider
 13 of specialized electronics and services, today announced that the
 14 Government of Albania has awarded its Security Division, Rapiscan
 15 Systems, a fifteen-year contract to provide turnkey cargo and vehicle
 16 security screening services at various sites throughout the country.

17 OSI Systems' CEO, Deepak Chopra, stated, "This significant award
 18 from Albania to provide turnkey screening services builds upon similar
 19 long-term agreements awarded by the Puerto Rico ports authority and
 20 Mexico's tax and customs authority. Our strategy of expanding our
 21 security offerings beyond the manufacture and sale of screening and
 22 detection equipment by providing comprehensive turnkey screening
 23 services continues to be well received in the marketplace. Our
 24 experience and capability to develop and integrate leading edge
 25 inspection technologies coupled with our depth of operational expertise
 26 is unmatched in the industry and we believe makes us uniquely
 27 qualified to secure and manage such complex programs."

Under the program, Rapiscan Systems intends to provide a comprehensive X-ray screening program, which will incorporate technology, staffing, systems integration, and maintenance support at sites throughout Albania. These operational capabilities are intended to enhance the Albanian government's capability to interdict contraband and undeclared materials. The Company currently anticipates that total gross revenues may range from \$150 million - \$250 million over the term of the agreement. Actual revenues could differ significantly from the range provided as the generation of revenue is based upon the volume of cargo and other factors.

Ajay Mehra, President of Rapiscan Systems, stated, "The Albanian government's initiative to secure its ports and land crossings represents another significant step in the security inspection arena. We are proud to have been selected to execute this critical program. Our selection reinforces the attractiveness and compelling value of our turnkey service model."

121. Throughout the Relevant Period, the Individual Defendants made statements and/or caused OSI to state that the Albanian Contract was proof of the sustainability of the turnkey model. They repeatedly painted a picture that the Albanian Contract faced no impediments and would soon generate considerable revenues. For example, during the Company's January 28, 2014 earnings conference call, defendant Edrick stated: "we have been busy preparing to go live before fiscal year end for our latest turnkey contract award in Albania" and, on the same call, defendant Chopra stated: "I should mention here that the build-out phase for the Albanian turnkey services project is well underway, and we're happy to announce that it'll start generating revenues before the end of the fiscal year."

1 122. Defendant Edrick confirmed the progress of the Albanian Contract at
2 the March 11, 2014 Conference, stating “most recently earlier in our fiscal year, we
3 sold our third deal in Albania, which we’re ramping up right now. So very, very
4 exciting for us. It’s really changed our profile significantly.” Likewise, on the
5 Company’s April 30, 2014 earnings conference call, defendant Chopra made the
6 point: “[r]egarding Albania, we are making progress and we are on track. But I
7 don’t think so there will be any contribution in revenue in Q4. But we are moving
8 on target. We’re working diligently with it and looking forward to 2015.”

9 123. On the same call, defendant Edrick continued to emphasize that
10 “[d]uring the past few years, we have built a strong foundation for growth. The
11 investments we have made enabled us to become the leader in turnkey screening
12 solutions, and to continue to innovate to bring new products and services to market.”

13 124. During the June 3, 2014 Stephens Spring Conference, defendant Edrick
14 responded to a question by further emphasizing the Company’s turnkey solutions,
15 as follows:

16 <Q - Timothy J. Quillin>: . . . In the Security business, I think over the
17 past, let’s say, three years or so, one of the big changes has been that
18 you’ve won some big and small turnkey services, outsource services
19 contract where you own the equipment. Your employees run the
equipment and you get paid on a per site or per scan basis. Why has
that business model proved to be popular? What’s the pipeline look
like of additional opportunities?

20 <A - Alan I. Edrick>: . . . You talk about the pipeline of opportunities,
we are working on a number of deals. We’re very excited about those

1 opportunities. It's a long sales cycle. As we've gone through these
2 other contracts, they generally ranged from the time we started talking
3 to the time we executed the contract, anywhere between a couple of
4 years to maybe as much as four years. I would say initially, it was a
5 missionary sale, and we had to talk about a concept or a theory. And
6 now hopefully, we're moving a little bit beyond that as we're able to
7 take potential future customers, we can take into Puerto Rico, we can
8 take into Mexico, and they can see for themselves just how seamless an
9 operation it is.

10 It really works extremely efficiently and it's a very, very sophisticated
11 operation. So we're encouraged by that and we're looking forward to
12 winning new turnkeys in the future, while today we've been successful
13 on winning all turnkeys awarded today, 100%, we're not saying in the
14 future, we'll always win 100% but we think our first-mover advantage
15 is significant and is going to allow us to win perhaps more than our fair
16 share of deals going forward.

17 125. At the same conference, in response to specific questions from Mr.
18 Quillin about the "ramp-up process of each" turnkey contract, defendant Edrick
19 stated, "[I]n Albania, similarly, the construction is ongoing, which is our latest deal,
20 as well as the equipment. And again, we're waiting on the customer."

21 126. During this time, there was fear among analysts that OSI would not be
22 able to right its compliance procedures and internal controls following the 2013
23 issues with TSA. At the Stephens Conference, defendant Edrick reassured investors
24 that, "we do think that we've established strong procedures, processes that will
25 enable us to hopefully avoid such issues in the future. Our management has been
26 strengthened significantly. Our compliance function has been upgraded
27 significantly, and the oversight function overall as well. So we're hopeful that, that

1 will take care of it.” In truth, little, if any, had been done to improve the procedures
2 as the Company had used nefarious means to secure the Albanian Contract and
3 backroom dealing was key to landing any turnkey contract.

4 127. The next day, June 4, 2014, the Company participated in the Jefferies
5 LLC Healthcare Conference where defendant Edrick touted the turnkey model, as
6 follows:

7 Let’s start talking about maybe one of the most exciting areas within
8 our Security business, and that’s turnkey. I started off the conversation
9 telling you a little bit about this. But really the value proposition is for
10 customers that either don’t have the capital or the money to spend
11 upfront or perhaps don’t have the operational expertise to do it, we
12 provide a full turnkey solution. And what we mean is we manufacture
13 the equipment, we place it at the customer location, but we still own it,
14 it’s on our balance sheet. We staff it up with our people and then we
15 charge a fee per scan or a fee per site per month. We determine what
16 might be right for the customer.

17 We sort of pioneered this model. And to-date we’ve won all contracts
18 in the turnkey arena. While we think we have a nice first-mover
19 advantage and hopefully we’ll win more than our fair share in the
20 future, clearly we’re not going to win 100% going forward. But we
really like our position.

15 128. Defendant Edrick also responded to a question by hyping the margins
16 resulting from turnkey:

17 Q: What are the return on capital ROI metrics for these turnkey
18 projects? How much do you have to invest per dollar of revenues down
19 the road when you reach breakeven? Thanks.

20 Edrick: Yeah, it’s a great question and one that we have refrained from
answering for a number of reasons. As you can well imagine, we’re
getting margins that are well above our corporate averages. So for a

1 competitive reasons as well as potential prospects in the future, we've
2 refrained from giving out our margins on those. But what we can tell
3 you is that the payback is extremely attractive, the return on invested
4 capital is extremely attractive and we'd be happy to sign these type [sic]
5 of contracts any day of the week.

6 129. On August 12, 2014, defendant Edrick appeared at another
7 Oppenheimer Conference – the Technology, Internet & Communications
8 Conference and again touted the Company's turnkey operations: "And we won our
9 first contract in Puerto Rico, followed that up with a win in Mexico and then Albania.
10 And this recurring revenue at higher margin has really been a key to our success."
11 He also put forth the false picture that the Company had adequate internal controls,
12 by stating, "We, as a company overall, I think our controls are actually quite strong."
13 Defendant Edrick also responded to a question from an Oppenheimer analyst by
14 stating that turnkey contracts drive growth, as follows:
15

16 Turnkey, so this is the area that we might consider maybe our most
17 exciting opportunity for growth. These are the three contracts I referred
18 to you earlier in Puerto Rico, Mexico and Albania. Very exciting area
19 for us. It really has changed the landscape not only for our Security
20 business but for OSI Systems overall. It's higher margin and recurring
revenue.

21 This is as much an IP project as it is an equipment project. The stuff
22 we're doing is highly sophisticated. We think we have a nice first-
23 mover advantage.

24 Today we've won a 100% of the turnkey projects that have been
25 awarded in the world. And while we don't profess to be able to
26 maintain 100%, we think our first-mover advantage will allow us to win
27 hopefully more than our fair share of future turnkey awards.

1 130. Two days later, on August 14, 2014, defendant Edrick spoke at the
2 Jefferies Global Industrials Conference and again touted the Company's turnkey
3 contracts and "first mover" advantage:

4 [W]e challenged ourselves to say, how can we expand our revenues,
5 and how can we expand our margins. And we said, well, what if there
6 is a customer segment out there that maybe doesn't have the capital to
7 buy the equipment upfront, or if they do, perhaps they don't have the
8 operational expertise to run the equipment. Or if they have that, maybe
9 there's a third reason that they'd like to outsource the operation
10 altogether. And to that end, we set up a business specifically focused
11 on this a few years back, and we've won three contracts now in Puerto
12 Rico, Mexico and Albania. And there have been three contracts
13 awarded in the world. So, right now, we're batting a thousand, and we
14 think that first mover advantage is going to lead to substantial capturing
15 of future business going forward, though we don't expect to win 100%
16 going forward all the time.

1 131. Next, on August 25, 2014, on the Company's fourth quarter 2014
2 earnings conference call, defendant Chopra disclosed that the Albanian Contract had
3 been halted, but failed to disclose the detrimental effect it would have on OSI or the
4 reason why the contract had come under scrutiny, as follows:

5 Last year, we announced a 15-year contract that we received from the
6 government of Albania to provide turnkey cargo and vehicle screening
7 services at various sites throughout the country of Albania.

8 Unfortunately, we recently learned that the customer, the Albanian
9 newly elected government, has halted further progress on the contract
10 and put into doubt the continuation of the program.

11 The program had been proceeding smoothly and ahead of schedule. We
12 intend to strongly enforce our contractual rights and hope to reach an
13 amicable outcome. I would also note here that no revenues from
14 Albania are included from this contract in the revenue guidance we are

1 providing for fiscal 2015. You can understand that, under the
2 circumstances, we cannot comment further at this time.

3 132. That same day, on August 25, 2014, the Individual Defendants caused
4 OSI to issue a press release entitled “OSI Systems Reports Fourth Quarter and Fiscal
5 Year 2014 Financial Results.” The press release reported the Company’s financial
6 results, but omitted the key fact of the suspension of the Albanian Contract.

7 133. This was followed by the Company’s 2014 Form 10-K, filed with the
8 SEC on August 27, 2014 (the “2014 10-K”). It was signed by defendants Chopra,
9 Edrick, Mehra, Ballhaus, Feinberg, Good, and Luskin and certified pursuant to the
10 Sarbanes-Oxley Act of 2002 (“SOX”) by defendants Chopra and Edrick. The 2014
11 10-K continued to withhold the full extent of the recent events regarding the
12 Albanian Contract, as follows:

13 The loss or termination of a contract by such an institution, even if for
14 reasons unrelated to the quality of our products or services, could
15 therefore have a more wide-spread and potentially material adverse
16 effect on our business, financial condition and results of operations. For
17 example, in August 2013, we announced a 15-year contract award from
18 the Government of Albania to provide turnkey cargo and vehicle
19 screening services at various sites throughout the country. We were
20 recently notified that the Government of Albania has halted further
progress on the contract. We have begun proceedings to protect our
legal rights.

21 134. The 2014 10-K listed S2 Albania as a wholly-owned subsidiary of OSI
22 – without any mention of the 49% portion owned by ICMS or the profit-sharing
23 agreement.

1 135. These statements led the Company's stockholders and the investing
2 public to believe that the Albanian Contract had only been halted due a change in
3 political party in power, not as a result of widespread corruption in the procurement
4 of the contract and the secret arrangement with ICMS and Peçini. Although they
5 told the world that the contract had been halted, the Individual Defendants continued
6 to conceal, *inter alia*: (i) their 49% transfer of S2 Albania to Peçini who was
7 associated with the outgoing Albanian administration for a value worth \$4.50;
8 (ii) the Company's joint venture and profit-sharing agreement with ICMS; (iii) the
9 8% bonus and more favorable contract terms that Berisha inexplicably awarded the
10 Company during its bid; (iv) accusations reported in Albania that the Company's bid
11 had been collusive; and (v) the undisclosed opposition to the deal due to allegations
12 of corruption. Moreover, because all of these facts and accusations were reported
13 only in Albania (and in Albanian), OSI's investors remained completely in the dark.

14 136. On October 24, 2014 and January 27, 2015, the Individual Defendants
15 caused OSI to file quarterly reports with the SEC. Each was signed by defendants
16 Chopra and Edrick and continued to tout the Company's turnkey segment, as
17 follows:

18 We believe that our wide-ranging product portfolio together with our
19 ability to provide turnkey screening solutions position us to
competitively pursue security and inspection opportunities as they arise
throughout the world.
20

137. On March 3, 2015, defendant Edrick appeared at Morgan Stanley's Technology Media & Telecom Conference and provided a detailed – and materially misleading – explanation of the Company's turnkey business:

The security business has been growing the fastest for us. And then most the areas that we've been in, we tend to be number one or number two. And when we look at it and sort of break it down, we might break it down into cargo products, baggage and parcel inspection products, maybe some people screening and turnkey. And what turnkey is in the technology world is sort of equivalent to a SaaS model. Rather than software as a service, its security screening as a service. And we're clearly the number one in this market. And it's rapidly growing for us. And it's a high margin area.

138. Defendant Edrick also responded to a question by an analyst:

<Q – David Chen>: Okay. So you've announced two so far? Mexico and Puerto Rico.

<A – Alan I. Edrick>: Correct. We had won a third one as well, called Albania. Shortly after winning that, there was a change in the administration. So we've cautioned the Street to exclude that from future prospects in terms of what we're looking at, but there is always an opportunity to rekindle that.

139. On March 10, 2015, defendant Chopra represented the Company at the ROTH Growth Stock Conference and stated the following regarding the turnkey business:

One of the other growing opportunity for us is, as I mentioned, we consider ourselves to be a pioneer in that, is the turnkey screening solutions.

* * *

1 Turnkey screening solutions gaining increased visibility. And we are
 2 well positioned to further revenue, earnings and EBITDA growth;
 3 market share gains and a very strong pipeline of new products driven
 4 by R&D . . . Significant growth in service revenues. As I've
 5 mentioned, one of the fastest growing segments and with high gross
 6 margins, operating margins is a service business consists of both our
 turnkey operations and the service we provide after sale of the
 equipment both in healthcare and in the security. . . . In the security,
 the large addressable market for turnkey security solutions catching on.
 We would consider ourselves from the pioneers in developing this
 marketplace.

7 140. On June 3, 2015, defendant Edrick spoke on behalf of the Company at
 8 the Jefferies Global Healthcare Conference and stated:

9 This slide talks about our turnkey screening solutions, what we're
 10 talking a little bit about at the outset. . . . This represents one of our
 biggest growth opportunities. In addition to the few contracts that
 11 we've won, we have a nice funnel of opportunities. They're generally
 along our sales cycle. Some of these potential customers we've been
 working with for quite some time and are very optimistic about winning
 12 some deals here in the not too distant future. It's really had a major
 impact on improving our overall operating margins both through
 13 Rapiscan Systems and for OSI Systems overall. So quite excited about
 this, and we'll consider this one of our top growth opportunities.

14 141. Then, on August 5, 2015, defendant Edrick spoke on behalf of the
 15 Company at the CFA Society of Minnesota's InvestMNt Conference and stated the
 16 following regarding being able to secure deals with governments that face "unique
 17 challenges" to grow the turnkey business:

18 Turnkey. So we talked a little bit about this earlier. . . . When we think
 19 about what are our three biggest growth opportunities in security, one I
 would say would be turnkey, which we just talked about.

20 * * *

1 Yes, so the question, what's the advantage of the turnkey, why would
2 a customer buy that as opposed to buying the equipment outright? And
3 our customers are governments, so we're not talking about commercial
4 concerns whose primary motivation is profit.

5 So in dealing with governments, and we are not generally dealing with
6 the western world, so most of the turnkeys we're looking at are not in
7 the US or Western Europe. They are in places that have other unique
8 challenges.

9 So, one could be capital; they might not have the cash in order to layout,
10 so that's a real advantage for them. Two, many of them really don't
11 have the expertise to do it themselves, the operational expertise. Third,
12 others might have other concerns in their particular country such as []
13 fear of corruption and things like that, and being able to outsource it to
14 another Company could, lend greater credibility to the overall program.

15 Four, not having to worry about the upkeep of the equipment
16 throughout the life of it because we are taking all that responsibility.
17 So most of our customers on the turnkey are not necessarily motivated
18 by a profit, because they are a government entity, who's really
19 motivated by making sure that they have a complete screening. So, we
20 continue to believe most customers, to the point of your question, will
buy equipment, but there's a nice set of customers out there that are
very, very interested in the turnkey, and we're pursuing that. So we
sort of pursue it on a parallel path.

142. On August 20, 2015, the Individual Defendants caused OSI to issue a
15 press release, titled "OSI Systems Reports Fourth Quarter and Fiscal Year 2015
16 Financial Results." Therein, they stated, in relevant part:

17 OSI Systems, Inc. (NASDAQ: OSIS) today announced financial results
18 for its fourth quarter and fiscal year ended June 30, 2015.

19 Deepak Chopra, OSI Systems' President and CEO, stated, "We are
20 pleased to report our fourth quarter and full year operating results. We
achieved record sales and earnings during the quarter and fiscal 2015.
With a robust pipeline of opportunities across each of our divisions

coupled with significant, recently implemented operational improvement initiatives, we are optimistic for the future.”

The Company reported revenues of \$267 million for the fourth quarter of fiscal 2015, an increase of 2% from the \$260 million reported for the fourth quarter of fiscal 2014. Net income for the fourth quarter of fiscal 2015 was \$22.4 million, or \$1.09 per diluted share, compared to net income of \$22.1 million, or \$1.07 per diluted share, for the fourth quarter of fiscal 2014. Excluding the impact of restructuring and other charges, net income for the fourth quarter of fiscal 2015 would have been \$25.0 million, or \$1.22 per diluted share, compared to net income of \$24.5 million, or \$1.19 per diluted share, for the fourth quarter of fiscal 2014.

For the fiscal year ended June 30, 2015, the Company reported revenues of \$958 million, a 6% increase from the \$907 million reported for fiscal 2014. Net income for fiscal 2015 was \$65.2 million, or \$3.17 per diluted share, compared to net income of \$47.9 million, or \$2.33 per diluted share, in fiscal 2014. Excluding the impact of restructuring and other charges, and the impact in fiscal 2014 of tax elections related to the Company’s turnkey program in Mexico, net income for fiscal 2015 would have been \$72.4 million, or \$3.53 per diluted share, compared to net income of \$64.3 million, or \$3.13 per diluted share, for fiscal 2014.

During the quarter, the Company’s book-to-bill ratio for equipment and related services (non-turnkey) was 1.2 and, as of June 30, 2015, the Company’s backlog was \$638 million. During fiscal 2015, the Company generated cash flow from operations of \$105.1 million.

Mr. Chopra further commented, “Sales in our Healthcare Division increased by 29% over the prior year fourth quarter driven by significant growth in our U.S. patient monitoring business and the impact of an acquisition completed in the first quarter. New products have been well received, contributing to a very strong quarter providing nice momentum as we head into fiscal 2016.”

Mr. Chopra continued, “Our Security Division’s fourth quarter sales of \$131 million were solid. Due to the difficult comparison from the partial fulfillment of our Foreign Military Sale contract with the U.S. Department of Defense in the fourth quarter of the prior year, revenues were down 7%. We are encouraged by the prospects of continued

1 strong performance with the strength of the backlog, new cargo and
 2 vehicle inspection product orders, multiple wins for the recently
 3 introduced RTT™ 110 (Real Time Tomography) explosives detection
 systems, and a robust pipeline of opportunities throughout our product
 and turnkey portfolio.”

4 Mr. Chopra concluded, “During the fourth quarter our Optoelectronics
 5 and Manufacturing Division realized solid operating margin
 improvement and completed a significant facility consolidation within
 6 our contract manufacturing business. This initiative, as well as the
 recent deployment of other efficiency enhancements in our Healthcare
 and Security Divisions, will benefit our operations going forward.”

7 **Company Outlook - Guidance for Fiscal 2016**

8 Subject to the risks described herein, the Company anticipates fiscal
 9 2016 sales to be between \$985 million and \$1,020 million. In addition,
 the Company anticipates earnings per diluted share of \$3.75 to \$4.00,
 10 excluding the impact of restructuring and other charges.

11 143. On August 24, 2015, the Company filed its annual report on Form 10-
 K with the SEC for the year ended June 30, 2015. The annual report was signed by
 12 defendants Chopra, Edrick, Mehra, Ballhaus, Good, Feinberg, and Luskin and
 13 certified pursuant to SOX by defendants Chopra and Edrick. It reaffirmed the
 14 Company’s statements about its financial results contained in the press release issued
 15 on August 20, 2015.

16 144. After the Albanian Contract had been renegotiated pursuant to
 17 arbitration on April 28, 2015 and the less-lucrative version was set to go into effect
 18 on October 31, 2015, the Individual Defendants caused OSI to issue a press release
 19 on October 13, 2015 announcing that “the Company has commenced the operations
 20 phase with the Government of Albania to provide turnkey cargo and vehicle security

1 screening services at multiple sites throughout the country. The Company currently
2 anticipates total revenues to be approximately €200 million over the multi-year term
3 of the agreement.” Defendant Chopra stated in the press release that, “With Albania
4 now operational, along with the Puerto Rico and Mexico turnkey programs, we
5 continue to innovate and differentiate ourselves in the turnkey solutions space where
6 we expect to experience additional growth.”

7 145. On October 29, 2015, the Individual Defendants caused the Company
8 to issue a press release, which included a quote from defendant Chopra about the
9 Albanian Contract, “Bookings in our Security division were outstanding, highlighted
10 by the recently announced \$19 million order under a \$293 million IDIQ (indefinite
11 delivery/indefinite quantity) contract with the U.S. Customs and Border Protection
12 agency and the commencement of the turnkey security screening program in
13 Albania, our third such turnkey program.”

14 146. That same day, the Company held its quarterly earnings call for the first
15 quarter of 2016 and defendant Edrick bragged about the commencement of the
16 Albanian Contract, as follows:

17 We were pleased to reach agreement with the Government of Albania
18 on certain contract changes, which led to the commencement of
activities. We expect to ramp up to our full run rate this fiscal year.

19 This 15-year contract for turnkey cargo and vehicle security screening
20 services at various checkpoints throughout the country is valued at
approximately EUR200 million. Initial site operations are going

smoothly and we look forward to increasing revenues from this contract throughout this fiscal year as new sites come online.

Following Puerto Rico and Mexico, this is the third major turnkey services program now in operation. Similar to that in Mexico, Albania's service cost is based on a fixed amount per site per month.

147. Defendant Edrick also responded to a question about the Albanian Contract in the following fashion:

[Millward] Alan, given your strong bookings during the quarter, how should we think about the overall growth of your security business this year? And in terms of seasonality, if you can talk about seasonality and when do you expect Albania to be fully operational?

[Edrick] Sure, Josephine. Good questions, I'll maybe take them in inverse order. Albania we expect to be fully ramped during the course of this fiscal year. It's moving up at a nice pace and we think will enter fiscal 2017 at a full ramp rate. So we are very pleased with the progress that we are making in Albania.

148. On January 27, 2016, the Individual Defendants caused OSI to issue a press release announcing the Company's second quarter 2016 financial results. It was attached to a Form 8-K, signed by defendant Edrick, and filed with the SEC that same day. The press release contained a boastful quote from defendant Chopra, as follows:

Security division bookings in the first half were up 272% over the prior year. These bookings, together with the ramp up of our turnkey program in Albania and a solid pipeline of opportunities, position the division well for a strong second half weighted to the fourth quarter based upon the anticipated timing of converting our backlog and opportunities into revenue.

1 149. That same day, the Company held an earnings conference call, where
2 defendant Edrick had the following telling exchange with an analyst:

3 Josephine Millward of the Benchmark Company: What do you have in
4 your backlog for Albania Alan? It's not the \$200 million, right? You
don't have all of it in there?

5 Edrick: That's correct. We only include five years' worth of revenues
6 on Albania in our backlog, so that's in the neighborhood of \$60 million,
plus or minus.

7 150. Later in the same call, defendant Edrick stated that, "The Albania
8 turnkey contract has been ramping up nicely and is expected to be fully operational
9 in Q3." He also touted the growth opportunity of OSI's turnkey services and the
10 performance of the Albanian Contract, by stating:

11 In turnkey services, another major growth opportunity for us with a
12 long sales cycle, we continue to see a strong pipeline. We are optimistic
13 of landing new turnkey deals and have added additional resources to
support these opportunities. However, the timing of these deals has
been and will continue to be influenced by the macroeconomic factors
discussed earlier. Our most recent turnkey contract in Albania is
performing well, and we expect to be fully operational within this
quarter. In addition, our other turnkey programs continue to perform
well.

16 We are well situated for growth in products and services including
17 turnkey programs and have a strong balance sheet that can easily absorb
the capital requirements from longer lead time builds or turnkey
opportunities that often require significant initial capital outlay. . . .
18 The strength in our backlog and bookings trend and continued strength
in foreseeable demand for our products globally gives us confidence in
19 the second half and delivering a very strong Q4 in security.

1 151. At the March 15, 2016 ROTH Conference, defendant Chopra touted
2 OSI's turnkey business and the Albanian Contract to investors, as follows:

3 One of the big growth opportunities for us is in the large-scale turnkey
4 screening solutions with significant global expansion opportunities. . . .
5 [T]he latest win was Albania. So that in this space, this is a new
6 evolving market because you're trying to get to be a service provider in
7 the security field to your customer and a site – to have a site to show is
8 a big win for us. . . . Margins tend to be very good compared to selling
9 just the equipment.

10 152. On April 27, 2016, OSI held its third quarter 2016 earnings conference
11 call, during which defendant Edrick had the following exchange with an analyst:

12 Brian W. Ruttenbur of Drexel Hamilton LLC: And then Albania
13 started, you said in the third quarter, how much revenue did that
14 contribute?

15 Chopra: No we don't generally talk about revenues by project, but as
16 you know, Albania at full run rate is in the neighborhood of the \$12
17 million to \$13 million a year, increasing on an annual basis.

18 153. On the same call, defendant Edrick raved about the performance of
19 OSI's Security division, which included revenues from the Albanian Contract, as
20 follows:

21 Excluding this FMS contract, sales were up by 5% for the quarter due
22 to the performance of our security division, which included revenues
23 associated with a large Middle East contract and Albania, our latest
24 turnkey program, where all sites became fully operational during Q3.
25 Strong Security Division sales were offset by significantly weaker-
26 than-expected sales in our Healthcare division.

27 154. On the call, defendant Chopra added praise for OSI's turnkey business
28 and boasted that all three turnkey contracts were performing well, as follows:

1 On the turnkey services front, Mexico, Puerto Rico and Albania turnkey
 2 screening service contracts continue to perform well and we continue
 3 to add new opportunities to the turnkey pipeline. We are pleased that
 4 the ramp-up in Albania went as expected and by quarter end, all sites
 5 are fully operational. . . . Our overall long-term pipeline for Rapiscan
 6 products and screening services continues to be strong.

7 155. The next day, on April 28, 2016, the Individual Defendants caused OSI
 8 to file its quarterly report for the third quarter of 2016 with the SEC on Form 10-Q.
 9 It was signed by defendants Chopra and Edrick and stated that Security division
 10 revenues were increased due to the implementation of the Albanian Contract, among
 11 other things, as follows:

12 Revenues for the Security Division for the three months ended March
 13 31, 2016 increased primarily as a result of a \$23 million equipment sale
 14 to a Middle East customer and the implementation of our turn-key
 15 screening operations in Albania.

16 156. Next, on June 7, 2016, defendant Edrick highlighted the benefits of
 17 OSI's turnkey business to the Jefferies Healthcare Conference, as follows:

18 We are a leader in cargo. And in cargo turnkey is really the fastest-
 19 growing area for us. As mentioned a bit earlier, the difference between
 20 selling equipment and turnkey, turnkey is our version really of a SaaS
 21 model rather than software as a service, it is security as a service. We
 22 own the equipment and then we charge a fee per scan or we charge a
 23 fee for site per month and then turn long-term contracts. The first three
 24 that we have gotten are six years, 10 years and 15 years in duration.
 25 They are substantially higher margin than our corporate averages and
 26 has really enabled a lot of the EPS and EBITDA growth that we have
 27 seen over the last several years.

28 Our opportunity pipeline for turnkey remains robust. It is a longer sales
 29 cycle as there is quite a bit of education that needs to take place. We
 30 are hopeful now that we have three up and running and three up and

1 running that are very successful. We can shorten that new win process
 2 by a little bit.

3 157. On August 16, 2016, the Individual Defendants caused OSI to issue a
 4 press release announcing its fourth quarter and annual 2016 results. The press
 5 release was attached as an exhibit to a Form 8-K signed by defendant Edrick and
 6 filed with the SEC that same day. In the press release, defendant Chopra gave the
 7 following outlook on the performance of the Company's turnkey contracts: "We are
 8 also very encouraged by the outstanding performance of our turnkey security
 9 screening services operations in fiscal 2016 and the pipeline of opportunities for
 10 further turnkey awards in fiscal 2017."

11 158. That same day, the Company held an earnings conference call, on
 12 which defendant Chopra continued the narrative of turnkey being a "key growth
 13 driver" and misleadingly highlighted the performance of OSI's turnkey contracts,
 14 including the Albanian Contract, as follows:

15 In turnkey services, our current programs in Albania, Mexico and
 16 Puerto Rico continue to perform well, and contribute significantly to
 17 our overall performance. This market represents a key growth driver
 18 for us. Going forward, as the potential turnkey pipeline continues to
 19 grow; we believe we are in excellent position to capture additional
 20 turnkey services opportunities.

21 159. Defendant Chopra also used the call as an opportunity to reassure
 22 analysts about OSI's turnkey pipeline, as follows:

23 Larry Solow of CJS Securities: Okay. And then on turnkey, it sounds
 24 like, without getting into the real specific details, it sounds like that

1 queue of opportunities is big as it has been in some time. And hopefully
2 things start—it's just a matter of when you can close some deals. Is
that a good assessment?

3 Chopra: That's a good assessment and again I want to emphasize that
4 most of these deals, most of the deals are cargo-based. So even at the
end it becomes a sale of equipment or it turns into a turnkey now our
5 pipeline is very robust and strong. And we also, what we feel is, we
have demonstrated that this can work. So, we have a big head start from
our competitors.

6 160. Defendant Chopra also responded to questions about the effect of the
7 new Albanian government on the Albanian Contract, as follows:

8 Jeff Martin of ROTH Capital Partners, LLC: I was wondering if you
9 could give us a little more detail on the turnkey pipeline. I mean, it's
understandable that timing is always unpredictable. If I'm recalling
10 correctly, Albania was your last win, which was approximately three
years ago.

11 Just curious if you have specific visibility on near-term projects that
12 could close? Or if this is just a long lead cycle that there isn't a ton of
visibility on?

13 Chopra: Jeff, the way you're saying it is right. These are tough things
14 to predict. All we can tell you is, with the successes we've had—and
keep in mind, Albania is a good example. Although it's been three
15 years, it also got sort of stopped when the election happened, and then
it got rejuvenated. We are working for most of these turnkey projects
16 in areas where there is some unpredictability, both volatility in the
economy, volatility in their requirements, volatility in just the need for
protecting the infrastructure.

17 161. On August 19, 2016, the Individual Defendants caused OSI to file its
18 annual report for 2016 on Form 10-K with the SEC. It was signed by defendants
19 Chopra, Edrick, Mehra, Ballhaus, Good, Hawkins, and Luskin and certified pursuant
20

1 to SOX by defendants Chopra and Edrick. The 2016 annual report highlighted the
2 Albanian Contract's contribution to the Security division's revenues, as follows:

3 ***Fiscal 2016 Compared with Fiscal 2015.*** Revenues for the Security
4 division decreased 15% primarily as a result of a \$66.4 million
5 reduction in revenues associated with a Foreign Military Sale contract
6 with the U.S. Department of Defense. . . . This decrease was partially
7 offset by revenues from the commencement of our turnkey scanning
8 operation in Albania during the year.

9 162. The Individual Defendants followed this up by including the
10 “[S]ignificant 15-year booking and successful rollout of our turnkey screening
11 solutions program in Albania” as a “key achievement” upon which performance-
12 based executive compensation was based in OSI’s 2016 Proxy Statement, filed with
13 the SEC on Form DEF 14A on October 21, 2016.

14 163. Then, on October 27, 2016, OSI held its first quarter 2017 earnings call,
15 where defendant Edrick stressed the Company’s “leadership role” in turnkey
16 solutions:

17 Over the past decade, we have demonstrated a strong track record of
18 producing sales and earnings growth with strong cash flow generation
19 while simultaneously investing in product development and innovation
20 for the future and making strategic acquisitions that serve us well. Our
investments have enabled us to continue our leadership role of the
turnkey screening solutions market space and have allowed us to
introduce innovative products and solutions to the market across our
various industries.

21 164. On the same call, defendant Chopra stated, “The turnkey services
22 pipeline continues to be strong. . .”

1 165. On October 31, 2016, the Individual Defendants caused OSI to file its
2 quarterly report for the first quarter of 2017 on Form 10-Q with the SEC. It was
3 signed by defendants Chopra and Edrick and continued to highlight how the
4 Albanian Contract had increased revenues for the Security division, as follows:

5 Revenues for the Security division for the three months ended
6 September 30, 2016 increased primarily as a result of the following:
7 (i) \$14.2 million from sales of our newly acquired subsidiary, AS&E;
8 (ii) a significant increase in sales of our RTT product to European
9 customers; and (iii) increased turnkey screening services revenues
10 primarily as a result of our contract with the Albanian government.

11 166. Then, on December 21, 2016, the Individual Defendants caused OSI to
12 attach the Fifth Amendment to Credit Agreement as an exhibit to a Form 8-K. It
13 misrepresented that OSI had “no outstanding subscriptions, options, warrants, calls,
14 rights or other agreements or commitments (other than stock options granted to
15 employees or directors and directors’ qualifying shares) of any nature relating to any
16 Equity Interest of [OSI] or any Subsidiary, except as contemplated in connection
17 with the Credit Documents.” The Form 8-K failed to mention the 49% interest and
18 profit-sharing agreement for its subsidiary, S2 Albania, with ICMS.

19 167. On January 26, 2017, OSI held its earnings conference call for the
20 second quarter of 2017. On the call, defendant Edrick again stated that the Security
division’s increased revenue was due to an increase in revenue from the Albanian
Contract, as follows:

1 As mentioned previously, revenues in Q2 increased by 23% on a year-
 2 over-year basis. Revenues in the Security division increased by 49%
 3 primarily as a result of the inclusion of \$29 million of revenues from
 4 the AS&E acquisition, a significant increase in sales of our RTT
 Checked Baggage Systems to international customers, and an increase
 in turnkey screening services revenue as a result of the program in
 Albania, which ramped up in fiscal 2016.

5 168. Defendant Chopra also stated on the call that “[i]n turnkey services, our
 6 programs in Puerto Rico, Mexico and Albania continue to perform well. Overall,
 7 we see the pipeline staying robust and we remain optimistic that OSI will capture
 8 new turnkey programs in the near future.”

9 169. On the February 1, 2017, the Individual Defendants caused OSI to file
 10 its quarterly report for the second quarter of 2017 on Form 10-Q with the SEC. It
 11 was signed by defendants Edrick and Chopra and continued to highlight that the
 12 strength of the Security division’s performance was due to the Albanian Contract, as
 13 follows:

14 Revenues for the Security division for the three months ended
 15 December 31, 2016 increased primarily as a result of (i) \$29.1 million
 16 from sales of our newly acquired subsidiary, AS&E; (ii) significantly
 increased sales of our RTT product to international customers; and
 (iii) increased turnkey screening services revenues as a result of our
 contract with the Albanian government.

17 * * *

18 Revenues for the Security division for the six months ended December
 19 31, 2016 increased primarily as a result of (i) \$43.2 million from sales
 20 of our newly acquired subsidiary, AS&E; (ii) significantly increased
 sales of our RTT product to international customers; and (iii) increased

1 turnkey screening services revenues as a result of our contract with the
2 Albanian government.

3 170. On February 8, 2017, defendant Edrick made the following remarks at
4 the Cowen Aerospace/Defense & Industrials Conference:

5 One of the really interesting areas of our Security business is what we
6 call turnkey. So our basic business model in the past for Security had
7 always been, we sell equipment and then we get some recurring revenue
through service, spare parts, and maintenance. And we challenged
ourselves a few years ago, to say, how can we expand that revenue
potential and how can we expand those margins?

8 And we thought there might be a customer set out there that either
9 didn't have the capital or cash to buy the equipment upfront, or if they
did, maybe they don't have the operational expertise to run it.

10 And we formed this turnkey unit. And what we mean by that is we
11 manufacture the equipment. We place it at the customer's site. We
12 staff it up with our people, and then we charge a fee per scan or a fee
per site per month. And we enter into a long, multiyear contracts with
these customers. And this has been extraordinarily successful for us.
In just a few short years, this has gone from 0% of our Security business
to about 30% today. So it's been very, very exciting. It's a nice
revenue, higher margin business for us of a recurring nature.

14 We have a strong first-mover advantage. Up to this point, we're really
15 the only company out there with any significant contract wins in
16 turnkey, and we're looking forward to continuing to maintain our
leadership in this area.

17 171. Defendant Edrick continued this theme in responses to conference
18 attendee questions:

19 So we're talking about number being one or two in that area. Within
20 turnkey, we're a clear number one. Where we have the lion's share of
that marketplace.

* * *

1 Yeah. So, the turnkey business is growing a little bit organically as
 2 Albania became fully ramped up and now it's waiting for our next
 3 turnkey wins.

4 172. On February 15, 2017, the Individual Defendants caused OSI to enter
 5 into a purchase agreement (the "Purchase Agreement") for the issuance and sale of
 6 \$250 million of OSI Bonds. On February 22, 2017, the Company closed the
 7 offering. On the same day, OSI filed a Form 8-K explaining the transaction and
 8 attaching a copy of the Purchase Agreement and indenture. According to the
 9 February 22, 2017 Form 8-K, the Initial Purchasers anticipated selling the OSI
 10 Bonds to qualified institutional buyers. In the Purchase Agreement, the Individual
 11 Defendants continued to lie to conceal the joint venture with ICMS. The Purchase
 12 Agreement represented the following regarding OSI's subsidiaries:

13 (ix) Good Standing of Subsidiaries. Each "significant subsidiary" of
 14 the Company (as such term is defined in Rule 1-02 of Regulation S-X)
 15 (each, a "Subsidiary" and, collectively, the "Subsidiaries") has been
 16 duly organized and is validly existing in good standing under the laws
 17 of the jurisdiction of its incorporation or organization, has corporate or
 18 similar power and authority to own, lease and operate its properties and
 19 to conduct its business as described in the General Disclosure Package
 20 and the Final Offering Memorandum and is duly qualified to transact
 business and is in good standing in each jurisdiction in which such
 qualification is required, whether by reason of the ownership or leasing
 of property or the conduct of business, except where the failure to so
 qualify or to be in good standing would not result in a Material Adverse
 Effect. *Except as otherwise disclosed in the General Disclosure
 Package and the Final Offering Memorandum, all of the issued and
 outstanding capital stock of each Subsidiary has been duly authorized
 and validly issued, is fully paid and non-assessable and is owned by
 the Company, directly or through subsidiaries, free and clear of any
 security interest, mortgage, pledge, lien, encumbrance, claim or*

1 *equity. None of the outstanding shares of capital stock of any*
 2 *Subsidiary was issued in violation of the preemptive or similar rights*
 3 *of any security holder of such Subsidiary.* The Company does not own
 4 or control, directly or indirectly, any corporation, association or other
 5 entity other than the subsidiaries listed in Exhibit 21 to the Company's
 6 Annual Report on Form 10-K for the fiscal year ended June 30, 2016,
 7 except as disclosed in the General Disclosure Package and the Final
 8 Offering Memorandum and such other subsidiaries none of which, in
 9 the aggregate, would constitute a "significant subsidiary" of the
 10 Company under Rule 1-02 of Regulation S-X. *The only Subsidiaries*
of the Company are the subsidiaries listed on Schedule D hereto.

7 (Emphasis added). Schedule D of the Purchase agreement listed S2 Albania as a
 8 wholly-owned "Subsidiary." Nowhere in the Purchase Agreement did the Individual
 9 Defendants disclose anything about the secret arrangement with ICMS or its 49%
 10 interest and profit share in S2 Albania.

11 173. The Purchase Agreement also assured the investing public that the
 12 Company had adequate internal controls, as follows:

13 The Company and each of its subsidiaries maintain effective internal
 14 control over financial reporting (as defined under Rule 13-a15 and 15d-
 15 15 under the 1934 Act Regulations) and a system of internal accounting
 16 controls sufficient to provide reasonable assurances that
 17 (A) transactions are executed in accordance with management's
 18 general or specific authorization; (B) transactions are recorded as
 19 necessary to permit preparation of financial statements in conformity
 20 with GAAP and to maintain accountability for assets; (C) access to
 assets is permitted only in accordance with management's general or
 specific authorization; (D) the recorded accountability for assets is
 compared with the existing assets at reasonable intervals and
 appropriate action is taken with respect to any differences; and (E) the
 interactive data in eXtensible Business Reporting Language or
 incorporated by reference in the General Disclosure Package and the
 Final Offering Memorandum fairly presents the information called for
 in all material respects and is prepared in accordance with the

Commission's rules and guidelines applicable thereto. Except as described in the General Disclosure Package and the Final Offering Memorandum, since the end of the Company's most recent audited fiscal year, there has been (1) no material weakness in the Company's internal control over financial reporting (whether or not remediated) and (2) no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The Company and each of its subsidiaries maintain an effective system of disclosure controls and procedures (as defined in Rule 13a-15 and Rule 15d-15 under the 1934 Act Regulations) that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the 1934 Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and is accumulated and communicated to the Company's management, including its principal executive officer or officers and principal financial officer or officers, as appropriate, to allow timely decisions regarding disclosure.

174. The Form 8-K, filed with the SEC on February 22, 2017, attaching the Purchase Agreement, also certified that the Individual Defendants had caused the Company to comply with SOX, as follows:

There is and has been no failure on the part of the Company or any of the Company's directors or officers, in their capacities as such, to comply in all material respects with any provision of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated in connection therewith, including Section 402 related to loans and Sections 302 and 906 related to certifications.

175. On April 26, 2017, OSI held its third quarter 2017 earnings conference call. On the call, defendant Edrick stated:

Over most of the past decade, we've demonstrated a strong track record of sales and earnings growth with strong cash flow generation while simultaneously investing in the future, our investments have enabled us to continue our leadership role in the turnkey screening solutions

1 market space and have allowed us to introduce innovative products and
2 services to the market across our industries.

3 176. Then, on May 24, 2017, defendant Edrick glowingly described the
4 benefits of turnkey contracts to the B. Riley & Co. Institutional Investor Conference,
as follows:

5 And to that end, we've landed three significant contracts in Mexico,
6 Puerto Rico, and Albania. These are long-term contracts ranging from
7 6 to 15 years, and it really provides a nice recurring revenue at a nice
margin for us. We're the clear leaders in the turnkey. We think we
8 have a significant first-mover advantage, so we won 100% of the deals
today. While that might not always be the case, we think we'll continue
9 to win a disproportionate share, given our strong leadership position in
this area.

10 177. Also, on June 7, 2017 defendant Edrick told the Jefferies Global
11 Healthcare Conference turnkey contracts were the future, as follows:

12 A full turnkey solution, whereby, instead of selling them the equipment,
13 we manufacture the equipment, we place it at the customer site, we own
14 it, it sits on our balance sheet. We staff it up with our people, we enter
15 into a long-term contract with the customer. And then we charge them
16 a fee per scan or a fee per site per month. We call that turnkey, and it
17 has been an extremely successful opportunity for us. We've landed
18 major contracts in Mexico, Puerto Rico and Albania, we're the clear
19 number one leader in this market space and we're looking to continue
20 to expand it. So very exciting, the primary focus of this has been at
borders and at ports, but can easily be expanded into other venues as
well.

21 178. Next, defendant Edrick told the Jefferies Global Industrials Conference
on August 9, 2017 that:

22 So the question about momentum in turnkey. Yeah, we would love to
be signing turnkey deals at a faster rate than we are. The reality is we're

1 the only ones who have won a turnkey deal. So, it's not that we're
2 losing any turnkey deals to others, but it just takes a long time to get
them over the finish line.

3 Each of these contracts, we probably worked on for three to four years
4 before we ultimately signed a contract with them.

5 * * *

6 Our first contract that we won was in Puerto Rico, a nice 10-year
7 contract whereby we are screening all the containers that come into the
port, into the Puerto Rico Ports Authority in San Juan. And we follow
that up with a much larger contract in Mexico and a third contract in
Albania.

8 And, in just a short period of time, this has already become a significant
9 part of our overall business. We're excited about it. We're – in addition
10 to pure turnkeys, we're looking at hybrid models as well where maybe
we don't take on the full context of everything that's going on, maybe
the customer might continue with some of those responsibilities. But a
11 great area for us, providing excellent recurring revenue at higher
margins than our regular business.

12 179. On August 24, 2017, the Individual Defendants caused OSI to issue a
13 press release, titled "OSIS Reports Fourth Quarter and Fiscal Year 2017 Financial
14 Results." Therein, they stated, in relevant part:

15 OSI Systems, Inc. (the "Company" or "OSIS") (NASDAQ: OSIS)
16 today announced financial results for the quarter and fiscal year ended
June 30, 2017.

17 "We are pleased to announce outstanding fiscal fourth quarter results.
18 Each of our three operating divisions contributed to the successful
conclusion of a strong fiscal year. Performance at the Security division,
in particular, drove top-line growth and margin expansion," said
19 Deepak Chopra, OSIS' Chairman and Chief Executive Officer.

20 The Company reported revenues of \$252 million for the fourth quarter
of fiscal 2017, an increase of 14% from the \$221 million reported for

1 the fourth quarter of fiscal 2016. Net income for the fourth quarter of
 2 fiscal 2017 was \$1.5 million, or \$0.08 per diluted share, compared to
 3 net income of \$5.9 million, or \$0.30 per diluted share, for the fourth
 4 quarter of fiscal 2016. Non-GAAP net income for the fourth quarter of
 5 fiscal 2017 was \$19.9 million, or \$1.02 per diluted share, compared to
 6 non-GAAP net income for the fourth quarter of fiscal 2016 of \$11.4
 7 million, or \$0.58 per diluted share.

8 For the fiscal year ended June 30, 2017, the Company reported revenues
 9 of \$961 million, an increase of 16% as compared to the same period a
 10 year ago. Net income for fiscal 2017 was \$21.1 million, or \$1.07 per
 11 diluted share, compared to net income of \$26.2 million, or \$1.30 per
 12 diluted share, in the same period a year ago. Non-GAAP net income
 13 for the fiscal year ended June 30, 2017 was \$58.8 million, or \$2.99 per
 14 diluted share, compared to non-GAAP net income of \$44.3 million, or
 15 \$2.21 per diluted share, for the 2016 fiscal year.

16 During the three months ended June 30, 2017, the Company's book-to-
 17 bill ratio for equipment and related services (non-turnkey) was 1.4. As
 18 of June 30, 2017 the Company's backlog (measured as quantifiable
 19 purchase orders or contracts for which revenues are expected to be
 20 recognized within the next five years) was \$738 million, compared to
 21 \$623 million as of June 30, 2016. During fiscal 2017, cash flow
 22 generated from operations was \$62.8 million and capital expenditures
 23 were \$17.1 million.

24 Mr. Chopra stated, "Our Security division had an outstanding finish to
 25 the year. Fourth quarter revenues increased 33% to a record \$147
 26 million, \$23 million of which was generated by our AS&E business,
 27 which we acquired in September 2016. Excluding the AS&E revenues,
 28 fourth quarter sales in our Security division increased 12% over sales
 29 in the same prior-year fiscal period. We leveraged our growth and
 30 benefitted from synergies from the AS&E acquisition to significantly
 31 improve our fourth quarter year-over-year operating income excluding
 32 the impact of impairment, restructuring and other charges."

33 Mr. Chopra further commented, "Our Optoelectronics and
 34 Manufacturing division closed the year with an outstanding operating
 35 margin due to operational improvements, together with a more
 36 favorable product mix and a migration to more profitable customers."

1 Mr. Chopra concluded, “Our Healthcare business continued to emerge
 2 from previous operating difficulties and a challenging hospital
 3 spending environment. During the fourth quarter, sales decreased by
 4 3%; however, excluding the impact of a non-core healthcare business
 5 divestiture in February 2017, fourth quarter sales increased by 7% over
 6 the prior year. We believe that we are well-positioned for top-line
 7 growth and margin expansion heading into fiscal 2018.”

8 **Fiscal Year 2018 Outlook**

9 Subject to risks described in this press release, the Company anticipates
 10 8% to 12% growth in fiscal 2018 sales to \$1,040,000,000 -
 11 \$1,080,000,000. In addition, the Company anticipates 12% to 20%
 12 growth in non-GAAP earnings per diluted share to \$3.35 - \$3.60,
 13 excluding the fiscal 2018 impact of impairment, restructuring and other
 14 charges, amortization of acquired intangible assets and non-cash
 15 interest expense, and their related tax effects. As a result of the matters
 16 discussed under “Forward-Looking Statements,” actual sales and non-
 17 GAAP diluted earnings per share could vary from this guidance.

180. That same day, on August 24, 2017, OSI held its earnings conference
 11 call for the fourth quarter and full year 2017. On the call, defendant Chopra
 12 continued to tout the Albanian Contract, as follows:

13 Turning to turnkey services. Our current programs in Albania, Mexico
 14 and Puerto Rico continue to perform well. As we have mentioned in
 15 the past, the potential customers that are seeking to buy cargo product
 16 or turnkey service model options are increasingly overall and we
 17 continue to look at moving from one to the other.

181. On September 7, 2017, the Individual Defendants caused OSI to file its
 17 annual report for 2017 on Form 10-K with the SEC. The 10-K was signed by
 18 defendants Chopra, Edrick, Mehra, Ballhaus, Chizever, Good, Hawkins, and Luskin,
 19 and again represented that the Albanian Contract would drive Security division
 20

1 performance and compensate for poor performance in other OSI segments, as
2 follows:

3 Fiscal 2017 Compared with Fiscal 2016. Revenues for the Security
4 division increased primarily as a result of increased sales of cargo and
5 vehicle inspection systems . . . and increased revenue from turnkey
6 scanning operations as a result of a full year of operations in our
Albanian program, which commenced in the second quarter of fiscal
2016, and our expanded operations within our Mexican program, which
added several sites in the fourth quarter of the current year.

* * *

Fiscal 2016 Compared with Fiscal 2015. Revenues for the Security division decreased primarily as a result of a \$66.4 million reduction in revenues associated with a Foreign Military Sale contract with the U.S. Department of Defense. . . . This decrease was partially offset by revenues from the commencement of our turnkey scanning operation in Albania during the year.

182. On October 26, 2017, OSI held its earnings conference call for the first quarter of 2018. On the call, defendant Edrick again raved about the Company's leadership in turnkey contracts, as follows:

Over time, we have demonstrated a strong track record of sales and earnings growth with strong cash flow generation, while simultaneously investing in product development and innovation for the future and making strategic acquisitions that have served us well. Our investments have enabled us to continue our leadership role in the turnkey screening solutions market space and have allowed us to introduce innovative products and solutions to the market across our different industries.

1 183. Defendant Chopra also chimed in on the call to tout the success of OSI's
2 turnkey contracts, stating, "Our turnkey solutions contracts in Mexico, Puerto Rico
3 and Albania continue to perform well."

4 184. The above statements were materially false and/or misleading and
5 failed to disclose material adverse facts about the Company's business, operations,
6 and prospects. Specifically, the Individual Defendants failed to disclose that:
7 (1) OSI illegally acquired the Albanian Contract through bribery or other illicit
8 means; (2) OSI transferred 49% of its project company associated with the Albanian
9 Contract, S2 Albania, an entity purportedly worth millions, for consideration of
10 \$4.50 to ICMS, a company owned by an Albanian dentist with ties to its Prime
11 Minister who had approved the Albanian Contract; (3) OSI engaged in other illegal
12 acts, including improper sales and cash payments to government officials; (4) these
13 practices caused the Company to be vulnerable to potential civil and criminal
14 liability, and adverse regulatory action; and (5) as a result of the foregoing, the
15 Individual Defendants' statements about OSI's business, operations, and prospects,
16 were materially false and/or misleading and/or lacked a reasonable basis.

17 185. The Individual Defendants also repeatedly boasted about the
18 performance of OSI's turnkey business overall. For example, during the Company's
19 April 27, 2016 earnings conference call, defendant Chopra proclaimed that "[o]n the
20 turnkey services front, Mexico, Puerto Rico and Albania turnkey screening service

1 contracts continue to perform well and we continue to add new opportunities to the
2 turnkey pipeline.” Similarly, on the Company’s August 16, 2016 earnings
3 conference call, defendant Chopra emphasized that the turnkey “market represents
4 a key growth driver for us going forward . . . we believe we are in excellent position
5 to capture additional turnkey services opportunities.”

6 **XI. The Director Defendants Caused OSI to Issue a Materially False and
Misleading Proxy Statement**

7 186. Certain of the Individual Defendants also caused the Company to issue
8 a false and misleading proxy statement, which sought stockholder votes for, *inter*
9 *alia*, the election of directors and approval of a performance-based compensation
10 plan.

11 187. On October 23, 2017, defendants Chopra, Mehra, Good, Luskin,
12 Ballhaus, Hawkins, and Chizever caused the Company to file with the SEC and
13 disseminate to stockholders the 2017 Proxy in connection with the Company’s
14 annual stockholder meeting. The Director Defendants drafted, approved, and/or
15 signed the 2017 Proxy before it was filed with the SEC and disseminated to OSI’s
16 stockholders. These Individual Defendants negligently issued materially misleading
17 statements and omitted material information in the 2017 Proxy. The 2017 Proxy
18 allegations are based solely on negligence, they are not based on any allegations of
19 recklessness or knowing conduct by or on behalf of the Individual Defendants, and
20 they do not allege and do not sound in fraud. Plaintiff specifically disclaims any

1 allegations of, reliance upon any allegation of, or reference to any allegation of fraud,
2 scienter, or recklessness with regard to the 2017 Proxy allegations and related
3 claims.

4 188. Among other things, the 2017 Proxy provided information about the
5 director nominees up for election, which included the re-election of all seven
6 Director Defendants. In addition, the 2017 Proxy described director responsibilities;
7 the duties of each committee; general Board risk oversight; oversight of the
8 Company's financial statements; the accuracy of the Company's 2016 financial
9 statements; and explicitly referenced the Code, which includes special ethical
10 obligations regarding financial reporting such that all SEC filing are to be accurate.

11 189. The 2017 Proxy also made false and misleading statements in support
12 of the stockholder vote to approve the Company's Amended and Restated 2012
13 Incentive Award Plan, stating that the plan's compensation awards were subject to
14 performance goals and objectives that encouraged and rewarded the Individual
15 Defendants' misconduct as described herein. Specifically, the 2017 Proxy stated, in
16 relevant part:

17 *Performance Awards.* Performance awards include any of the
18 foregoing awards that are granted subject to vesting and/or payment
19 based on the attainment of specified performance goals. The plan
20 administrator will determine whether performance awards are intended
to qualify as "performance-based" compensation ("QPBC") within the
meaning of Section 162(m), in which case the applicable performance
criteria will be selected from the list below in accordance with the
requirements of Section 162(m).

In order to constitute QPBC under Section 162(m), in addition to certain other requirements, the relevant amounts must be payable only upon the attainment of pre-established, objective performance goals set by the Compensation Committee and linked to stockholder-approved performance criteria. For purposes of the Amended Plan, one or more of the following performance criteria will be used in setting performance goals applicable to QPBC, and may be used in setting performance goals applicable to other performance awards: (i) net earnings (either before or after one or more of the following: (a) interest, (b) taxes, (c) depreciation, (d) amortization and (e) non-cash equity-based compensation); (ii) gross or net sales or revenue; (iii) net income (either before or after taxes); (iv) adjusted net income; (v) operating earnings or profit; (vi) cash flow (including, but not limited to, operating cash flow and free cash flow); (vii) return on assets; (viii) return on capital; (ix) return on stockholders' equity; (x) total stockholder return; (xi) return on sales; (xii) gross or net profit or operating margin; (xiii) costs; (xiv) funds from operations; (xv) expenses; (xvi) working capital; (xvii) earnings per share; (xviii) adjusted earnings per share; (xix) price per share of Common Stock; (xx) regulatory body approval for commercialization of a product; (xxi) implementation or completion of critical projects; (xxii) market share; (xxiii) economic value; (xxiv) customer retention; and (xxv) sales-related goals, any of which may be measured either in absolute terms for our Company or any of our operating units or as compared to any incremental increase or decrease or as compared to results of a peer group or to market performance indicators or indices. The Amended Plan also permits the plan administrator to provide for objectively determinable adjustments to the applicable performance criteria in setting performance goals for QPBC awards.

190. The 2017 Proxy was false and misleading because it solicited OSI
1 stockholder votes for director re-election even though the Director Defendants were
2 aware, but had failed to disclose that: (1) OSI illegally acquired the Albanian
3 Contract through bribery or other illicit means; (2) OSI transferred 49% of its project
4 company associated with the Albanian Contract, S2 Albania, an entity purportedly

1 worth millions, for consideration worth \$4.50 to ICMS, a company owned by an
2 Albanian dentist with ties to its Prime Minister who had approved the Albanian
3 Contract; (3) OSI engaged in other illegal acts, including improper sales and cash
4 payments to government officials; (4) these practices caused the Company to be
5 vulnerable to potential civil and criminal liability and adverse regulatory action; and
6 (5) as a result of the foregoing, the Individual Defendants' statements about OSI's
7 business, operations, and prospects were materially false and/or misleading and/or
8 lacked a reasonable basis.

9 **XII. An Investigative Report Reveals the Truth**

10 191. On December 6, 2017, Muddy Waters published a report titled "OSIS:
11 Rotten to the Core." Muddy Waters alleged that the Albanian Contract was granted
12 as a result of corruption and bribery and claimed that while the concession "has an
13 estimated top line lifetime value of \$150 million to \$250 million," OSI "likely bribed
14 somebody by giving half of it away for \$4.50" since "[t]here was an unannounced
15 transfer of 49% of OSIS' project company, S2 Albania SHPK, to a holding company
16 owned by an Albanian doctor, for consideration of less than \$5.00."

17 192. The Muddy Waters Report also revealed previously untranslated
18 Albanian reports pointing to OSI's Albanian Contract as evidence of collusion and
19 corruption with the former Albanian government and highlighted the exorbitant fees
20 to be imposed under the contract. A July 7, 2015, *Pamfleti Online* article called the

1 Albanian contract a “Mafia of scanning concession,” and *Ora News* published an
2 Albanian television news program called “Rapiscan, Theft of the Century.”

3 193. Prior to Muddy Waters’ comprehensive investigation – which included
4 hiring investigators, obtaining documents directly from Albania, translating
5 previously undisclosed Albanian reports, and piecing together the ties between these
6 many scattered and obscure pieces of information – the true corrupt nature of the
7 Albanian Contract was not publicly known.

8 194. Muddy Waters reported that these facts demonstrated that the Albanian
9 Contract had been obtained “through corruption” and had put OSI’s Security
10 division “at significant risk” of losing and failing to gain future contracts with the
11 U.S. and European governments. Muddy Waters also reported that the Company
12 “could face liability under the Foreign Corrupt Practices Act (‘FCPA’), which could
13 be in the many hundreds of millions of dollars.”

14 195. In addition to the allegations levied against OSI with respect to the
15 Albanian Contract, the Muddy Waters Report questioned the value and the viability
16 of a turnkey contract between OSI and the Mexican government. Muddy Waters
17 stated that the contract is very likely overpriced, which could complicate OSI’s
18 ability to renew the contract. Also, given the amount of revenue generated by the
19 contract, as reported by OSI, if it were to be de-valued or not renewed in the future,
20 the Company’s financials would be significantly impacted. Specifically, Muddy

1 Waters estimated that the contract with Mexico generates about \$65-70 million of
2 EBITDA annually, an EBITDA margin of approximately 55-59%.

3 196. The Muddy Waters Report included quotes from an interview with a
4 former senior official who said that a key problem with the Mexican turnkey contract
5 is that it promises services that cannot be accomplished by a machine alone, such as
6 determining whether a scanned item is legal or compliant with state regulations.

7 197. Muddy Waters also alleged that “investigators’ interviews with former
8 employees yielded numerous anecdotes indicating OSIS is rotten to the core,”
9 including “knowledge of improper sales, cash payments to government officials,
10 fraud in a significant contract, and that OSIS had narrowly avoided being debarred
11 from doing business with the U.S. government.” The summary contained in the
12 Muddy Waters report stated:

13 We are short OSI Systems, Inc. (OSIS.US) because we think it is rotten
14 to the core. We believe it obtained a major turnkey contract in Albania
15 through corruption. It is likely that OSIS’s accounts are misstated as a
16 result. We believe the pricing of its Mexico turnkey contract does not
17 stand up to scrutiny. We estimate that the contract is so rich, it
18 accounted for more than 50% of OSIS’s FY2017 EBITDA, despite
19 being only 15% of revenue. Put another way, we estimate the Mexico
contract’s EBITDA margin is approximately 55%, which would mean
the rest of OSIS has an EBITDA margin of a paltry 7.5%. This contract
is up for renewal in 2018, and nonrenewal would seemingly have an
enormous impact on OSIS’s profits. It also implies that there is
significant room for price adjustment downward, which could have a
material impact on profits. Former employees’ statements support our
view that OSIS is rotting from the inside.

20

1 Corruption in the 2013 award of OSIS's Albania concession is more
2 obvious than a three-liter bottle of shampoo in your carryon luggage.
3 The concession has an estimated top line lifetime value of \$150 million
4 to \$250 million. However, OSIS either appears to value the total
5 concession at \$9.00 (yes, nine dollars), or they likely bribed somebody
6 by giving half of it away for \$4.50. There was an unannounced transfer
7 of 49% of OSIS's project company, S2 Albania SHPK, to a holding
8 company owned by an Albanian doctor, for consideration of less than
9 \$5.00. To be clear, this company (S2 Albania SHPK) is the company
10 to which all rights and obligations under the turnkey contract award
11 belong, so 49% of the company is presumably worth many millions of
12 dollars. It appears to us that OSIS's accounts do not reflect the transfer
13 – there are no deductions for non-controlling interests in the income
14 statement, and February 2017 bond offering documents appear to show
15 the subsidiary as 100% owned by OSIS.

9 There have been numerous news reports in Albania accusing OSIS of
10 corruptly obtaining the concession, and a senior member of parliament
11 has called the award corrupt on the record. Amazingly, U.S. investors
12 appear to have no inkling of these allegations.

13 Turnkey contracts seem particularly well-suited to corruption. If a
14 government is only purchasing scanning equipment, it is relatively easy
15 for an internal auditor to spot an overpayment because the equipment
16 is somewhat commoditized. However, when bundling in various
17 bespoke services, the pricing suddenly becomes much more opaque.
18 Given this reality, it is perhaps not surprising that the turnkey contracts
19 to date are in jurisdictions not known for their strong governance.

20 Beyond the turnkey contracts, investigators' interviews with former
21 employees yielded numerous anecdotes indicating OSIS is rotten to the
22 core. Former employees alleged a list of rot they experienced at
23 Rapiscan, including their concern about possibly going to prison,
24 knowledge of improper sales, cash payments to government officials,
25 fraud in a significant contract, and that OSIS had narrowly avoided
26 being debarred from doing business with the U.S. government.

27 This corrupt behavior puts at significant risk OSIS's Security Division
28 contracts with U.S. and European government agencies. The only
29 former employee who, in our view, made unreservedly positive
30 comments about OSIS's compliance admitted that OSIS could lose

1 significant government business if it engaged in corruption. Although
2 this senior executive was at OSIS when the transfer of 49% of S2
3 Albania occurred, he professed no knowledge of the transaction. Either
4 way, his professed lack of knowledge is telling – he was kept out of the
loop, which we would not have expected given his role; or, he was not
responding truthfully to the question.

5 In addition, OSIS could face liability under the Foreign Corrupt
6 Practices Act (“FCPA”), which could be in the many hundreds of
millions of dollars. The U.S. Department of Justice has been aggressive
7 in prosecuting FCPA violations in both Republican and Democratic
8 administrations. (FCPA settlements generate meaningful revenue
generators for the federal government.) In October 2015, we
9 announced we were short Telia Company (TELIA SS) because we
believed the corruption issues in its business were significantly larger
10 than had been disclosed, and that it would likely settle at \$1 billion or
more. Just three months ago (September 2017), Telia agreed to settle
with the DOJ and assisting regulators for \$966 million. At these levels,
there is room for a FCPA settlement that would equal a significant
chunk of OSIS’s market cap.

11 (Footnotes omitted.)

12 198. The Company’s market capitalization drastically declined following
13 the Muddy Waters Report. It dropped nearly 30% in a single day on December 6,
14 2017 and has continued on a steady decline, from over \$1.68 billion to a position
15 under \$1 billion on February 2, 2018.

16 199. Before the close of business on the day the Muddy Waters Report was
17 released, December 6, 2017, the Individual Defendants caused the Company to
18 respond in a statement. The Company’s statement was short and confirmed some
19 facts in the Muddy Waters report, such as ICMS’s ownership and profit-sharing
20 agreement with S2 Albania, but denied any wrongdoing, as follows:

1 We begin by noting that our turnkey security inspection programs in
2 Mexico and in Albania were the result of public tenders. Both have
3 resulted in enhanced security, increased seizures of contraband, and
improved transparency in customs declarations, significantly benefiting
both countries.

4 Our Albania turnkey security inspection program is operated in
5 partnership with ICMS, a local company with civil works construction
6 capabilities in Albania, with a profit share in accordance with the terms
of our agreement with ICMS. ICMS implemented all civil works
construction for the program. As such, both we and ICMS made
significant capital investments toward the implementation of the
program in a value well beyond the par value of shares.

8 Our Mexico turnkey security inspection program operates security
9 inspection checkpoints at multiple critical sites across Mexico as
designated by the government. The program has resulted in significant
10 seizures of high-value contraband. The Company has previously stated
that we are in discussions with the government towards the extension
of the program under a reduced revenue rate.

11 200. The Individual Defendants' response called Muddy Waters' claims
12 "misleading allegations," but never directly addressed them.

13 201. Days later, according to a December 9, 2017 article, the head of
14 Albania's Parliamentary Group of the Socialist Party, Taulant Balla, issued a series
15 of accusations against former Prime Minister Berisha regarding OSI's Albanian
16 Contract and asked for Berisha's prosecution. The article further noted that,
17 according to Balla, Berisha engaged in a \$122.5 million corruption – 49% of the
18 value of the Albanian Contract.

19 202. Muddy Waters responded to OSI's semi-denial on January 31, 2018, by
20 backing up its claims that OSI is "rotten to the core" with additional facts, as follows:

1 OSIS's response to our December 6, 2017 report in no way changes our
2 opinion that OSIS is rotten to the core. We see the Albania issue as
3 important for three reasons – first, it's illustrative of our view of the rot;
4 second, it begs the question of how viable the turnkey model is without
5 corruption, particularly in jurisdictions where corruption is a major
6 issue; and third, OSIS's response goes to what we see is a complete lack
7 of management credibility.

8 In this update, we address OSIS's response to Albania. OSIS's
9 "partnership" with ICMS, a company purportedly "with civil works
10 construction capabilities in Albania", appears to us a conduit for
corruption for five additional reasons.

- 11 • First, OSIS's statement that "... ICMS made significant capital
12 investments toward the implementation of the program in a value
well beyond the par value of shares" is greatly misleading
because it appears from the various entities' financials that OSIS
has provided virtually all funding to, and investment in, S2
Albania.
- 13 • Second, OSIS appears to have sought to conceal its joint venture
with ICMS from its investors, which we see no reason to do if
this arrangement were legitimate.
- 14 • Third, even if ICMS were the greatest construction company in
the world, how would it be entitled to half of the economics of
the concession for pouring concrete when OSIS is providing the
key equipment, technology, knowhow, and financing?
- 15 • Fourth, we are fairly certain that ICMS is not the greatest
construction company in the world – or even in Albania. ICMS's
construction affiliate was formed only eight months before OSIS
was awarded the concession – its capitalization was only
~US\$850, and it was then sold to ICMS's physician shareholder
also for ~US\$850. Moreover, it has virtually no tangible assets.
If it's really this easy and cheap to get a nine-figure construction
contract, then we at Muddy Waters are wondering why we're in
the relatively impoverished world of hedge funds.

- 1 • Fifth, the timeline of this “partnership” is beyond suspicious –
2 with the requisite approval of the transfer of shares taking place
3 on the day the outgoing Minister of Finance left and the new one
4 was seated.

5 203. Muddy Waters’ response also attacked OSI’s claim that “ICMS made
6 significant capital contributions” that were on par with those of OSI by pointing out
7 the facts that ICMS was not an established construction company, had virtually no
8 tangible assets, and was capitalized for only approximately \$850. Muddy Water also
9 pointed out that OSI provided virtually all of the funding to S2 Albania. These
10 relevant portions of Muddy Waters’ response read as follows:

- 11 • **We see no S2 Albania assets to which ICMS could**
12 **conceivably have contributed.** As of December 31, 2015, S2
13 Albania had total assets of US\$10.8 million. Virtually all of the
14 assets – US\$9.6 million – were PP&E. According to the
15 footnotes, 98.5% of PP&E (US\$9.6 million) were machines (i.e.,
16 likely equipment from OSIS) – with no construction or buildings
17 disclosed at all.
- 18 • **We see no financial contribution from ICMS to S2 Albania.**
19 S2 Albania’s December 31, 2015 liabilities confirm that
20 substantially all of S2 Albania’s capitalization came from OSIS.
21 The financials show US\$11.7 million in payables to OSIS. (Note
22 that S2 Albania had negative shareholders’ equity of US\$-1.1
23 million.)
- 24 • **We see no account evidencing investment in S2 Albania by**
25 **ICMS or ICMS Construction.** We see nothing on ICMS’s
26 CY2016 balance sheet that could resemble a meaningful
27 investment in S2 Albania. Of its US\$3.06 million in assets as of
28 December 31, 2016, US\$2.97 million are current assets. (US\$1.8
29 million – 59.6% – is prepaid expenses; the balance is

1 substantially all cash and receivables.) Of the US\$80,000 of non-
 2 current assets, 99.99% is PP&E.

3
 4 We also see nothing on the CY2016 balance sheet of ICMS
 5 Construction, which is an affiliate of ICMS, that evidences
 6 investment in S2 Albania. (Note that ICMS Construction does
 7 not own the equity in S2 Albania.) ICMS Construction has a
 8 total of US\$704,000 of assets, of which US\$647,000 are
 9 receivables. There is no meaningful PP&E or investments.
 10 ICMS Construction had \$627 million of revenue in 2015, which
 11 means it undertook no significant construction prior to 2016.

12 OSIS appears to have taken pains to keep its “partnership” hidden from
 13 investors. We see this as affirmation that the relationship is a conduit
 14 for corruption. When OSIS trumpeted the award of the Albania
 15 concession as potentially worth \$150 million to \$250 million, it would
 16 have been an opportune time to mention that it would only be entitled
 17 to half of the profits. When Ajay Mehra patted OSIS management on
 18 the back by saying the deal “reinforces the attractiveness and
 19 compelling value of our turnkey service model”, the lack of any
 20 mention of the supposedly critical role their construction company was
 playing would seem a material omission. When the new government
 sought to renegotiate the concession agreement against a backdrop of
 news stories calling the concession award and the transfer of S2 Albania
 shares corrupt, OSIS chose not to publicly discuss this controversy or
 its partner. When OSIS investor relations was asked before the
 publication of our initial report to provide details on turnkey contract
 partnerships in Puerto Rico and Albania, OSIS refused to provide any
 information. A former key executive of OSIS told our investigators he
 was unaware that OSIS had sold half of S2 Albania for \$4.50.
 Regardless of whether he was telling the truth, his professed lack of
 awareness is telling. ICMS clearly seems to be a joint venture partner
 OSIS wanted to keep hidden.

21 We struggle to understand how OSIS can justify a construction
 22 contractor having half of the concession economics. Note that the
 23 approximately \$1.55 million in revenue at an at least 46.3% operating
 24 margin ICMS recorded in 2016 **could mean that ICMS’s economics**
even exceed half the concession value.

1 * * *

2 ICMS was not an established construction company in Albania, and its
3 construction affiliate, ICMS Construction (100% owned by the doctor
4 who owns ICMS) was formed by a single shareholder on January 29,
5 2013, only eight months before the award of the concession. When
6 formed, it was called Bledi Construction and had capital of \$850.
7 Approximately one and one-half months after formation (March 11,
8 2013), it changed its registration status from “active” to “suspended”,
during which time it would not have been permitted to conduct
business. On June 21, 2013, Bledi changed its status back to “active”.
The next day – only two months before the award of the concession –
it was sold to ICMS . . . for \$850. A few days after that, the name was
changed to ICMS Construction. (In 2016, the shares were transferred
from ICMS to Dr. Olti Peçini again for \$850.)

9 (Footnotes omitted).

10 204. Muddy Waters’ response also reported that ICMS was not a legitimate
11 company because, at the end of 2015, it had “\$1,300 cash,” “zero inventory,”
12 “\$20,000 in plant and machinery,” and “office equipment of just \$514.”

13 205. The following day, on February 1, 2018, the Company disclosed in a
14 filing with the SEC on Form 8-K that the SEC had launched an investigation into
15 OSI’s compliance with the FCPA. In the disclosure, the Company said the DOJ was
16 also looking into its FCPA compliance and that the SEC and DOJ were investigating
17 “trading in the company’s securities and have subpoenaed information regarding
18 trading by executives, directors and employees, as well as company operations and
19 disclosures in and around the time of certain trades.” In response to this
20 investigation, OSI said it “has taken action with respect to a senior-level employee.”

1 206. Following this news, OSI's share price took another severe hit. The
2 Company lost 18% of its market capitalization overnight.

3 207. Further, even though the Individual Defendants repeatedly touted the
4 Albanian Contract as validation of its turnkey business model, over five years later
5 the Company has still not signed another turnkey contract.

6 **XIII. Defendants Chopra, Edrick, Mehra, Ballhaus, and Good Unlawfully
7 Profited at OSI's Expense by Selling Shares at Artificially-Inflated
Prices**

8 208. While in possession of knowledge that OSI had obtained the Albanian
9 Contract through illegal means and violated the FCPA, Chopra, Edrick, Mehra,
10 Ballhaus, and Good sold large quantities of their personal holdings of OSI at inflated
11 prices totaling over \$52.6 million.

12 209. Defendant Chopra is OSI's founder, President, CEO, and Chairman.
13 Chopra was aware of material, adverse, and non-public information regarding OSI's
14 internal controls and illegal activities and the Company's statements related thereto.
15 While in possession of this information, Chopra sold 309,944 shares, at artificially-
16 inflated prices, for total proceeds of over \$25.2 million. This represented 46% of his
17 total reported holdings as of October 1, 2013 and 56% of his average year-end stock
18 holdings during the Relevant Period. Additionally, only weeks after OSI announced
19 that the Albanian government "halted further progress" on the turnkey contract but
20 failed to disclose the full extent of the issues, the Company abruptly disclosed that

1 Chopra had entered into a “Rule 10b5-1 trading plan” on September 11, 2014 to
2 immediately sell 48,000 shares of OSI common stock for over \$3 million in illicit
3 proceeds knowing that the full extent of the wrongdoing had not been disclosed. The
4 execution of this trading plan while knowingly concealing material adverse
5 information surrounding the Company’s turnkey operations and the corrupt
6 arrangement with ICMS reinforces the highly unusual and suspicious nature of
7 Chopra’s trading.

8 210. Defendant Edrick is OSI’s CFO and Executive Vice President and held
9 those positions throughout the Relevant Period. Edrick was aware of material,
10 adverse, and non-public information regarding OSI’s internal controls and illegal
11 activities and the Company’s statements related thereto. While in possession of this
12 information, Edrick sold 103,594 shares, at artificially-inflated prices, for total
13 proceeds of over \$8.1 million. These shares represented 28% of his total reported
14 holdings as of October 10, 2013 and 30% of his average year-end stock holdings
15 during the Relevant Period.

16 211. Defendant Mehra is a member of OSI’s Board, as well as Executive
17 Vice President of OSI, President of OSI Solutions Business, and President of S2
18 Global. Mehra was aware of material, adverse, and non-public information
19 regarding OSI’s internal controls and illegal activities and the Company’s statements
20 related thereto. While in possession of this information, Mehra sold 186,811 shares,

1 at artificially-inflated prices, for total proceeds of over \$14.7 million. These shares
2 represented 69% of his total reported holdings as of October 10, 2013 and 88% of
3 his average year-end stock holdings during the Relevant Period.

4 212. Defendant Ballhaus is a member of OSI's Board and Audit Committee.
5 He held those positions throughout the Relevant Period. Ballhaus was aware of
6 material, adverse, and non-public information regarding OSI's internal controls and
7 illegal activities and the Company's statements related thereto. While in possession
8 of this information, Ballhaus sold 1,750 shares, at artificially-inflated prices, for total
9 proceeds of \$124,950.

10 213. Defendant Good is a member of OSI's Board and Audit and Risk
11 Management Committees. He held those positions throughout the Relevant Period.
12 Good was aware of material, adverse, and non-public information regarding OSI's
13 internal controls and illegal activities and the Company's statements related thereto.
14 While in possession of this information, Good sold 19,650 shares, at artificially-
15 inflated prices, for total proceeds of \$1,391,150.

16 214. These insider sales total over \$52.6 million in proceeds and were all
17 executed while OSI's stock price was artificially inflated due to the unlawful conduct
18 alleged herein.

19
20

1 **XIV. Excessive Compensation**

2 215. Certain of the Individual Defendants further breached their fiduciary
3 duties in awarding excessive compensation resulting in unjust enrichment and waste
4 of corporate assets. Defendants Good, Luskin, and Ballhaus all served on the
5 Compensation Committee during the Relevant Period.

6 216. Specifically, as executives, defendants Chopra, Edrick, and Mehra were
7 awarded salaries and stock-based compensation that were not justified given the
8 state of affairs at the Company.

9 217. OSI's executive compensation was highly contingent on the
10 Company's financial metrics. The Individual Defendants regularly stated in the
11 Company's proxy statements that OSI placed an "emphasis on pay-for-performance
12 principles" and believed "that executive compensation should be tied to the
13 performance of the Company on both a short-term and long-term basis."
14 Accordingly, during the Relevant Period, OSI's executives' fixed compensation -
15 *i.e.*, base salary – was a small percentage of the total compensation, while "variable"
16 compensation – *i.e.*, annual cash incentive bonuses or performance-based equity
17 incentive awards – comprised the majority of total compensation.

18 218. Under the Company's Annual Incentive Bonus Program, as set forth in
19 the Company's proxy statement, filed with the SEC on Form 14A on October 17,
20 2014, "[t]he Company grants annual incentive bonuses based in part on each

1 executive's contribution to enhancing long-term stockholder value." To that end,
2 certain executives received annual incentive bonuses based on the Company's
3 "annual operating achievement and near-term success," and quantitative factors such
4 as "contributions to stockholder value" and "earnings per share and internal
5 metrics."

6 219. Under this Annual Incentive Bonus Program, defendant Chopra earned
7 \$1,323,000 in 2013, \$353,000 in 2014, and \$700,000 in 2015; Edrick earned
8 \$340,000 in 2013, \$160,000 in 2014, and \$300,000 in 2015; and Mehra earned
9 \$325,000 in 2013, \$125,000 in 2015, and \$245,000 in 2017 in performance-based
10 compensation that was based upon artificially-inflated performance metrics.

11 220. Further, in addition to the Annual Incentive Bonus Program, in 2015
12 the Compensation Committee established a separate incentive program tied to the
13 annual performance of the Company's turnkey business. The goal of this new
14 program was to underscore turnkey's importance and to focus defendant Mehra's
15 attention on developing turnkey opportunities. Incentives under the turnkey
16 incentive program were conditioned on the achievement of certain metrics based on
17 the operating income and bookings of the Company's turnkey business. Further,
18 this all took place as the Individual Defendants refused to provide clear turnkey-
19 specific financial results to stockholders and the investing public.

20

1 221. As a result of this turnkey incentive program, defendant Mehra vested
2 23,800 restricted stock units (“RSUs”) for achieving a bookings target of \$225
3 million. In 2017, Mehra received \$705,000 for exceeding the operating income
4 target of \$10 million in the turnkey segment.

5 222. Additionally, in 2017, while the Individual Defendants had
6 “determined not to adjust any base salary levels” for any OSI executive officers, they
7 made an exception for defendant Mehra, “whose salary was increased by
8 approximately 14% to \$400,000 to compensate him for taking on significantly
9 greater responsibility for the oversight and management of the cargo and vehicle
10 inspection and turnkey business lines within our Security division.”

DAMAGES TO OSI

12 223. As a result of the Individual Defendants' wrongful conduct, OSI carried
13 out a series of illegal actions and disseminated false and misleading statements and
14 omitted material information to make such statements not false and misleading when
15 made. The improper statements have devastated OSI's credibility. OSI has been,
16 and will continue to be, severely damaged and injured by the Individual Defendants'
17 misconduct.

18 224. Indeed, the Individual Defendants' false and misleading statements as
19 alleged above have subjected OSI to a consolidated securities fraud class action
20 pending in this District. The matter is captioned *Arkansas Teacher Retirement*

1 *System, et al. v. OSI Systems, Inc., et al.*, Case No. 17-cv-08841 (the “Securities
2 Class Action”).

3 225. However, the costs and expenses incurred in connection with the
4 Securities Class Action are not the only damages to arise out of the allegations. The
5 Company has incurred, and will continue to incur, significant damage in the form of
6 costs and expenses associated with the SEC investigation into the Company’s
7 compliance with the FCPA, the DOJ’s request for information regarding OSI’s
8 FCPA compliance, and the SEC’s and DOJ’s investigations of trading in OSI
9 securities, which include the issuance of subpoenas for information regarding
10 trading by executives, directors, and employees, as well as the Company’s
11 operations and disclosures in and around the time of certain trades.

12 226. The Company may have to pay hundreds of millions of dollars in
13 settlement costs or fines in connection with its liability for violations of the FCPA.

14 227. As a direct and proximate result of the Individual Defendants’ actions
15 as alleged above, OSI’s market capitalization has been substantially damaged, losing
16 hundreds of millions of dollars in value as a result of the conduct described herein.
17 Before the release of the Muddy Waters Report, OSI had a market capitalization of
18 \$1.684 billion, which quickly dropped below one billion dollars.

19 228. Moreover, these actions have irreparably damaged OSI’s corporate
20 image and goodwill. For the foreseeable future, OSI will suffer from what is known

1 as the “liar’s discount,” a term applied to the stocks of companies who have been
2 implicated in illegal behavior and have misled the investing public, such that OSI’s
3 ability to raise equity capital or debt on favorable terms in the future is now impaired.

4 **PLAINTIFF’S DEMAND AND DERIVATIVE ALLEGATIONS**

5 229. Plaintiff incorporates by reference and realleges each and every
6 allegation set forth above, as though fully set forth herein.

7 230. Plaintiff brings this action derivatively in the right and for the benefit
8 of the Company to redress the Individual Defendants’ breaches of fiduciary duties.

9 231. Plaintiff is an owner of OSI common stock and was an owner of OSI
10 common stock at all times relevant hereto.

11 232. Plaintiff will adequately and fairly represent the interests of the
12 Company and its stockholders in enforcing and prosecuting its rights.

13 233. As a result of the facts set forth herein, Plaintiff has not made any
14 demand on the OSI Board to institute this action against the Individual Defendants.
15 Such a demand would be a futile and useless act because the Board is incapable of
16 making an independent and disinterested decision to institute and vigorously
17 prosecute this action.

18 234. At the time this action was commenced, the Board consisted of seven
19 directors: defendants Chopra, Mehra, Ballhaus, Chizever, Good, Hawkins, and
20

1 Luskin. All seven members of the Board are incapable of making an independent
2 and disinterested decision to institute and vigorously prosecute this action.

3 **I. Demand is Futile as to the Director Defendants Because They Each Face
4 a Substantial Likelihood of Liability**

5 235. The Director Defendants all face a substantial likelihood of liability for
6 their individual misconduct. The Director Defendants were directors throughout
7 Relevant Period, and as such had a fiduciary duty to make sure that the Company's
8 actions were in accordance with the law and to ensure that the Company's SEC
9 filings, press releases, and other public statements and presentations on behalf of the
10 Company concerning its business, operations, prospects, internal controls, and
11 financial statements were accurate.

12 236. Moreover, the Director Defendants, as directors, owed a duty to, in
13 good faith and with due diligence, exercise reasonable inquiry, oversight, and
14 supervision to ensure that the Company's internal controls were sufficiently robust
15 and effective (and were being implemented effectively), and to ensure that the
16 Board's duties were being discharged in good faith and with the required diligence
17 and due care. Instead, they knowingly and consciously engaged in the illegal actions
18 that violated the FCPA, including the procurement of the Albanian Contract, and
19 reviewed, authorized, and/or caused the publication of the materially false and
20 misleading statements discussed above that caused the Company's stock to trade at
artificially-inflated prices.

1 237. The Director Defendants are not disinterested because they each face a
2 substantial likelihood of liability in light of their role in the false and misleading
3 statements as outlined above. Each of the Director Defendants signed the false and
4 misleading Forms 10-K filed with the SEC.

5 238. The Director Defendants consciously and knowingly made or
6 authorized false and misleading statements, failed to timely correct such statements,
7 failed to take necessary and appropriate steps to ensure that the Company's internal
8 controls were sufficiently robust and effective (and were being implemented
9 effectively), and failed to take necessary and appropriate steps to ensure that the
10 Board's duties were being discharged in good faith and with the required diligence
11 in clear breach of their fiduciary duties of loyalty and good faith. The Director
12 Defendants face a substantial likelihood of liability for the aforementioned breaches.
13 If the Director Defendants were to bring a suit on behalf of OSI to recover damages
14 sustained as a result of this misconduct, they would expose themselves to significant
15 liability. This is something they will not do. For this reason, demand is futile as to
16 the Director Defendants.

17 **II. Defendant Chopra Lacks Independence**

18 239. As an initial matter, OSI has conceded in its SEC filings that Chopra is
19 not an independent director of the Company. In its 2017 Proxy, OSI stated that:
20

1 "The Board has determined that each of the nominees for director, except
2 Mr. Chopra and Mr. Mehra, is independent. . . ."

3 240. In addition to this lack of independence, Chopra is not disinterested for
4 purposes of demand futility because his principal occupation is President, CEO, and
5 Chairman of the Board of OSI. According to the Company's SEC filings, in 2015,
6 2016, and 2017, Chopra received total compensation of \$8,477,921, \$6,888,699, and
7 \$7,078,479, respectively. These amounts are material to him. These amounts were
8 also excessive because portions of them were performance-based and approved by
9 the Compensation Committee – defendants Good, Luskin, and Ballhaus – and, as
10 such, defendant Chopra cannot consider a demand against these defendants.

11 241. Defendant Chopra is incapable of considering a demand to commence
12 and vigorously prosecute this action because he faces additional substantial
13 likelihood of liability as he is a named defendant in the Securities Class Action.

14 242. Defendant Chopra is first cousins with defendant Mehra and therefore
15 could never disinterestedly consider a demand against him.

16 243. He is also slated to receive a gigantic severance package should he ever
17 be terminated. He stands to receive a \$12.5 million retirement bonus if he retires
18 after January 1, 2020 and would receive three times his pay should he be fired
19 without cause before then. That would total approximately \$22 million based on his
20 current compensation.

1 244. For these reasons, demand upon defendant Chopra is futile.

2 **III. Defendant Mehra Lacks Independence**

3 245. In the 2017 Proxy, the Individual Defendants concede that Mehra is not
4 independent due to his executive officer position.

5 246. In addition to this lack of independence, Mehra is not disinterested for
6 purposes of demand futility because his principal occupation is Executive Vice
7 President of the Company and President of OSI Solutions Business. According to
8 the Company's SEC filings, in 2015, 2016, and 2017, Mehra received total
9 compensation of \$2,756,527, \$1,164,806, and \$2,858,718, respectively. These
10 amounts are material to him. These amounts were also excessive because portions
11 of them were performance-based and approved by the Compensation Committee –
12 defendants Good, Luskin, and Ballhaus – and, as such, defendant Mehra cannot
13 consider a demand against these defendants.

14 247. Defendant Mehra is incapable of considering a demand to commence
15 and vigorously prosecute this action because he faces additional substantial
16 likelihood of liability as he is a named defendant in the Securities Class Action.

17 248. During the Relevant Period, defendant Mehra oversaw the Company's
18 turnkey solutions. He directly participated in the illegal actions behind obtaining the
19 Albanian Contract and directly made several of the false and misleading statements
20

1 described herein. Due to these involvements, he is likely to face liability and
2 prosecution as a result of the SEC and DOJ investigations.

3 249. Defendant Mehra is first cousins with defendant Chopra and therefore
4 could never disinterestedly consider a demand against him.

5 250. For these reason, demand upon defendant Mehra is futile.

6 **IV. Demand is Excused as to Defendants Good, Luskin, Ballhaus, Hawkins,
7 and Chizever Because as Members of the Audit and/or Risk Management
Committees They Face a Substantial Likelihood of Liability**

8 251. Defendants Good, Luskin, Ballhaus, Hawkins, and Chizever, as
9 members of the Audit and/or Risk Management Committees during the Relevant
10 Period, participated in and knowingly approved the filing of false financial
11 statements and allowed defendants Chopra and Edrick to repeatedly make other false
12 and misleading statements to the investing public. More specifically, as members
13 of the Audit and/or Risk Management Committees, defendants Good, Luskin,
14 Ballhaus, Hawkins, and Chizever were obligated to review the Company's annual
15 and quarterly reports to ensure their accuracy and ensure the Company was acting
16 legally. Instead, defendants Good, Luskin, Ballhaus, Hawkins, and Chizever, as
17 members of the Audit and/or Risk Management Committees, failed to ensure the
18 integrity of the Company's financial statements and financial reporting process, the
19 Company's systems of internal accounting and financial controls, and other financial
20 information provided by the Company and failed to ensure the Company was acting

1 legally, as required by the Audit and/or risk Management Committees Charters. For
2 this reason, demand is futile as to defendants Good, Luskin, Ballhaus, Hawkins, and
3 Chizever.

4 **V. Demand is Futile as to Defendants Chopra, Mehra, Good, and Ballhaus
5 Because They Financially Benefited from the Above-Referenced False
6 and Misleading Statements**

7 252. As noted above, defendants Chopra, Mehra, Good, and Ballhaus
8 personally benefited from the Individual Defendants' false and misleading
9 statements by having the opportunity to sell shares of OSI stock at artificially-
inflated prices, a benefit not shared by the rest of OSI's stockholders.

10 253. Defendants Chopra, Mehra, Good, and Ballhaus would not bring a
11 derivative action against themselves for improper insider selling. Therefore, demand
12 as to them is futile.

13 **VI. Demand is Futile as to Defendants Good, Luskin, and Ballhaus Because
14 as Members of the Compensation Committee They Face a Substantial
15 Likelihood of Liability**

16 254. Defendants Good, Luskin, and Ballhaus served on the Compensation
17 Committee during the Relevant Period. In that role, they were in charge of
18 approving performance metrics and amounts of performance-based compensation
19 for the Company's executive officers. In that role, they wrongfully approved the
20 excessive compensation described herein. As such, they face a substantial likelihood
of liability and demand as to them is futile.

VII. Demand is Futile as to the Director Defendants for the Following Additional Reasons

255. If OSI's current officers and directors are protected against personal liability for their breaches of fiduciary duties alleged in this Complaint by Directors & Officers Liability Insurance ("D&O Insurance"), they caused the Company to purchase that insurance for their protection with corporate funds, *i.e.*, monies belonging to the stockholders. However, Plaintiff is informed and believes that the D&O Insurance policies covering the Individual Defendants in this case contain provisions that eliminate coverage for any action brought directly by OSI against the Individual Defendants, known as the "insured versus insured exclusion."

256. As a result, if the Director Defendants were to sue themselves or certain
of the officers of OSI, there would be no D&O Insurance protection, and thus, this
is a further reason why they will not bring such a suit. On the other hand, if the suit
is brought derivatively, as this action is brought, such insurance coverage exists and
will provide a basis for the Company to effectuate recovery. Therefore, the Director
Defendants cannot be expected to file the claims asserted in this derivative lawsuit
because such claims would not be covered under the Company's D&O Insurance
policy.

257. Under the factual circumstances described herein, the Director Defendants are more interested in protecting themselves than they are in protecting OSI by prosecuting this action. Therefore, demand on OSI and its Board is futile

1 and is excused. OSI has been and will continue to be exposed to significant losses
2 due to the Individual Defendants' wrongdoing. Yet, the Director Defendants have
3 not filed any lawsuits against themselves or others who were responsible for the
4 wrongful conduct. Thus, the Director Defendants are breaching their fiduciary
5 duties to the Company and face a sufficiently substantial likelihood of liability for
6 their breaches, rendering any demand upon them futile.

7 **COUNT I**

8 **AGAINST THE INDIVIDUAL DEFENDANTS**
FOR BREACH OF FIDUCIARY DUTY

9 258. Plaintiff incorporates by reference all preceding and subsequent
10 paragraphs as if fully set forth herein.

11 259. The Individual Defendants owed and owe OSI fiduciary obligations.
12 By reason of their fiduciary relationships, the Individual Defendants owed and owe
13 OSI the highest obligation of loyalty, good faith, due care, oversight, and candor.

14 260. All of the Individual Defendants violated and breached their fiduciary
15 duties of loyalty, good faith, due care, oversight, and candor.

16 261. Each of the Individual Defendants had actual or constructive
17 knowledge of and failed to disclose that: (1) OSI illegally acquired the Albanian
18 Contract through bribery or other illicit means; (2) OSI transferred 49% of its project
19 company associated with the Albanian Contract, S2 Albania, an entity purportedly
20 worth millions, for consideration worth \$4.50 to a Company with ties to Albania's

1 Prime Minister; (3) OSI engaged in other illegal acts, including improper sales and
2 cash payments to government officials; (4) these practices caused the Company to
3 be vulnerable to potential civil and criminal liability, and adverse regulatory action;
4 and (5) as a result of the foregoing, the Individual Defendants' statements about
5 OSI's business, operations, and prospects, were materially false and/or misleading
6 and/or lacked a reasonable basis. These actions caused severe risks to the
7 Company's financial viability and caused harm to the Company by subjecting the
8 Company to the Securities Class Action and the SEC and DOJ investigations. The
9 Individual Defendants' actions (and inactions) could not have been a good faith
10 exercise of prudent business judgment to protect and promote the Company's
11 corporate interests.

12 262. The Individual Defendants consciously caused or allowed OSI to lack
13 requisite internal controls, and, as a result, the Company procured the Albanian
14 Contract through illegal means and regularly made false and misleading statements
15 regarding the Albanian Contract and the Company's internal controls.

16 263. The Individual Defendants consciously failed to supervise, and to exert
17 internal controls over, and consciously disregarded their responsibilities involving
18 the Company.

19 264. As a direct and proximate result of the Individual Defendants'
20 conscious failure to perform their fiduciary obligations, OSI has sustained

1 significant damages. As a result of the misconduct alleged herein, the Individual
 2 Defendants are liable to the Company. The Individual Defendants breached their
 3 fiduciary duties owed to OSI and its stockholders by willfully, consciously, and/or
 4 intentionally failing to perform their fiduciary duties. They caused the Company to
 5 waste valuable assets and unnecessarily expend corporate funds. They also failed to
 6 properly oversee OSI's business, rendering them personally liable to the Company.

7 **COUNT II**

8 **BREACH OF FIDUCIARY DUTY FOR INSIDER**
SELLING AND MISAPPROPRIATION OF INFORMATION
AGAINST THE INSIDER SELLING DEFENDANTS

9
 10 265. Plaintiff incorporates by reference and reallege each and every
 allegation set forth above, as though fully set forth herein.
 11

12 266. At the time of the stock sales set forth herein, the defendants Chopra,
 Edrick, Mehra, Ballhaus, and Good knew of the information described above, and
 13 sold OSI common stock on the basis of such information.
 14

15 267. The information described above was proprietary, non-public
 information concerning the Company. It was a proprietary asset belonging to the
 16 Company, which the Insider Selling Defendants used for their own benefit when
 they sold OSI common stock.
 17
 18

19 268. The Insider Selling Defendants' sales of Company common stock while
 in possession and control of this material, adverse non-public information was a
 20 breach of their fiduciary duties of loyalty and good faith.
 21

1 269. Since the use of the Company's proprietary information for their own
2 gain constitutes a breach of the Insider Selling Defendants' fiduciary duties, the
3 Company is entitled to the imposition of a constructive trust on any profits the
4 Insider Selling Defendants obtained thereby.

COUNT III

UNJUST ENRICHMENT AGAINST THE INSIDER SELLING DEFENDANTS

7 270. Plaintiff incorporates by reference all preceding and subsequent
8 paragraphs as if fully set forth herein.

9 271. Defendants Chopra, Edrick, Mehra, Ballhaus, and Good were unjustly
10 enriched by their receipt of proceeds from their illegal sales of OSI common stock,
11 as alleged herein, and it would be unconscionable to allow them to retain the benefits
12 of their illegal conduct.

13 272. To remedy the Insider Selling Defendants' unjust enrichment, the Court
14 should order them to disgorge to the Company all proceeds derived from their illegal
15 sales of OSI common stock.

COUNT IV

**VIOLATIONS OF SECTION 14(a) OF THE EXCHANGE ACT
AND SEC RULE 14a-9 AGAINST THE DIRECTOR DEFENDANTS**

18 273. Plaintiff incorporates by reference all preceding paragraphs as if fully
19 set forth herein.

1 274. The Section 14(a) Exchange Act claims alleged herein are based solely
2 on negligence. They are not based on any allegation of reckless or knowing conduct
3 by or on behalf of the Individual Defendants named on this Count. The Section
4 14(a) Exchange Act claims alleged herein do not allege and do not sound in fraud.
5 Plaintiff specifically disclaims any allegations of, reliance upon any allegation of, or
6 reference to any allegation of fraud, scienter, or recklessness with regard to these
7 non-fraud claims.

8 275. Section 14(a) of the Exchange Act, 15 U.S.C. § 78n(a)(1), provides that
9 “[i]t shall be unlawful for any person, by use of the mails or by any means or
10 instrumentality of interstate commerce or of any facility of a national securities
11 exchange or otherwise, in contravention of such rules and regulations as the [SEC]
12 may prescribe as necessary or appropriate in the public interest or for the protection
13 of investors, to solicit or to permit the use of his name to solicit any proxy or consent
14 or authorization in respect of any security (other than an exempted security)
15 registered pursuant to section 12 of this title [15 U.S.C. § 781].”

16 276. Rule 14a-9, promulgated pursuant to Section 14(a) of the Exchange
17 Act, provides that no proxy statement shall contain “any statement which, at the time
18 and in the light of the circumstances under which it is made, is false or misleading
19 with respect to any material fact, or which omits to state any material fact necessary
20

1 in order to make the statements therein not false or misleading.” 17 C.F.R.
2 § 240.14a-9.

3 277. The 2017 Proxy violated Section 14(a) and Rule 14a-9 because it
4 solicited OSI stockholders’ votes for director re-election and the approval of
5 performance-based compensation while simultaneously misrepresenting and/or
6 failing to disclose that: (1) OSI illegally acquired the Albanian Contract through
7 bribery or other illicit means; (2) OSI transferred 49% of its project company
8 associated with the Albanian Contract, S2 Albania, an entity purportedly worth
9 millions, for consideration worth \$4.50; (3) OSI engaged in other illegal acts,
10 including improper sales and cash payments to government officials; (4) these
11 practices caused the Company to be vulnerable to potential civil and criminal
12 liability and adverse regulatory action; and (5) as a result of the foregoing, the
13 Individual Defendants’ statements about OSI’s business, operations, and prospects
14 were materially false and/or misleading and/or lacked a reasonable basis.

15 278. As alleged herein, in the 2017 Proxy, the Director Defendants
16 negligently issued, caused the Company to issue, and participated in the issuance of
17 untrue statements of material facts and omitted material facts necessary to make the
18 issued statements not misleading in violation of Section 14(a) or the Exchange Act
19 and SEC Rule 14a-9.

20

1 279. In the exercise of reasonable care, defendants Chopra, Mehra, Good,
2 Luskin, Ballhaus, Hawkins, and Chizerer should have known that the statements
3 contained in the 2017 Proxy were materially false and misleading.

4 280. The false and misleading statements and omissions in the 2017 Proxy
5 are material in that a reasonable stockholder would consider them important in
6 deciding how to vote on the re-election of directors and approval of executive
7 compensation. In addition, a reasonable investor would view a full and accurate
8 disclosure as significantly altering the “total mix” of information made available in
9 the 2017 Proxy and in other information reasonably available to stockholders.

10 281. As a direct and proximate result of the dissemination of the false and/or
11 misleading 2017 Proxy the Director Defendants used to obtain stockholder approval
12 of and thereby re-elect directors, nominal defendant OSI suffered damage and actual
13 economic losses (*i.e.*, wrongful re-election and election of directors) in an amount
14 to be determined at trial.

COUNT V

WASTE OF CORPORATE ASSETS **AGAINST THE INDIVIDUAL DEFENDANTS**

17 282. Plaintiff incorporates by reference all preceding and subsequent
18 paragraphs as if fully set forth herein.

19 283. The Individual Defendants owed OSI the obligation to avoid wasting
20 OSI's assets

284. The Individual Defendants breached their obligations to OSI and wasted corporate assets by subjecting the Company to the Securities Class Action, causing the Company to incur substantial costs.

285. As a direct and proximate result of the waste of corporate assets by the Individual Defendants, OSI has been and continues to be damaged.

286. Plaintiff, on behalf of OSI, has no adequate remedy at law

COUNT VI

UNJUST ENRICHMENT AGAINST DEFENDANTS CHOPRA, MEHRA, EDRICK, AND FLEMING

287. Plaintiff incorporates by reference all preceding and subsequent paragraphs as if fully set forth herein.

288. Defendants Chopra, Mehra, Edrick, and Fleming were unjustly enriched by their receipt of excessive compensation.

289. To remedy defendants Chopra, Mehra, Edrick, and Fleming's unjust enrichment, the Court should order them to disgorge to the Company all proceeds derived from their excessive compensation.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands judgment as follows:

A. Declaring that Plaintiff may maintain this derivative action on behalf of OSI and that Plaintiff is a proper and adequate representative of the Company;

B. Awarding the amount of damages sustained by the Company as a result of the Individual Defendants' breaches of fiduciary duties;

C. Ordering the Insider Selling Defendants to disgorge the profits obtained as a result of their sale of OSI stock while in possession of insider information as described herein;

D. Ordering defendants Chopra, Mehra, Edrick, and Fleming to disgorge the profits obtained as a result of their performance-based compensation based on artificially-inflated performance metrics as described herein;

E. Granting appropriate equitable relief to remedy the Individual Defendants' breaches of fiduciary duties and other violations of law;

F. Awarding to Plaintiff the costs and disbursements of the action, including reasonable attorneys' fees, accountants' and experts' fees and costs and expenses; and

G. Granting such other and further relief as the Court deems just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: April ___, 2019

Respectfully submitted,

WEISSLAW LLP

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